

**Northwestern University Transportation Center
Hagestad Sandhouse Gang Presentation
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Market Development - Pre & Post Staggers

**Gene Harmon
Transportation & Logistics Expert**

America's railroads have many tools available to produce profitability and thus fund new investment and returns for investors. These tools were restricted prior to the Staggers Act. The entire American rail industry was heading to oblivion as unplanned and accelerating disinvestment corroded the railways infrastructure and thus the ability to produce earnings. With the Staggers Rail Act management had new tools to better serve customers.

This presentation describes two strategic initiatives Gene Harmon led at the ICG pre-Staggers and at the SP post-Staggers. The ICG was in severe decline by the early 1970s. Profits had evaporated, track and equipment maintenance were severely restricted and ICG was struggling to compete with barge and highway competitors. Harmon became Market Manager-Paper in late 1974 after a revolution approved by Paul Reistrup led to the formation of an integrated market development and pricing organization. He will describe how they formed a team to address serious service and car supply issues with our paper customers then transformed the financial results of the 3000 car paper fleet. Then, he will put these developments into the context of ICG's financial results. In spite of not having the flexibility allowed by Staggers the team was able on a small scale to show what could be done to better serve customers and improve financial results. It took Harry Bruce, Rick Bessette and the ICG management team post-Staggers to realize the true benefits of relaxed economic regulation.

In 1978 Harmon joined the Southern Pacific under Pete Vajta who had been charged with instituting Marketing at SP. Carload business was deregulated in 1980 and the SP began a series of very specific steps to address Crown-Zellerbach's (CZ) supply chain opportunities. What resulted was a complete restructuring of CZ's west coast distribution built around SP and not Interstate 5. SP had the ability to contract with CZ for specific business with complete flexibility to price to the market. The program both reduced costs and dramatically improved SP's competitive position. These innovations cut costs for CZ and allowed them to compete for new business. SP would have needed about 100 similar programs annually to permit a major financial turn-around and alas this was not to be.

The presentation looks at the overall financial performance of both the ICG and SP pre and post-Staggers. In addition, notable personalities such as Paul Reistrup, Doug Hagestad, Harry Bruce, Dave DeBoer and Rob Krebs were actively involved in these programs. There will be some personal reminiscences to enliven the presentation.

Gene Harmon -Biography

Gene Harmon recently retired from a 44 year career in transportation and logistics management. Between 1985 and 2013 he owned and operated a logistics management and consulting business.

Gene has worked on the restructuring of Safeway Stores and the State Railway of Thailand, and led the turn-around of a moribund freight brokerage firm. He led the installation of a Quality System for a logistics company and provided management consulting services for a wide variety of transportation clients. In 2000 he secured start-up capital and led the implementation of Speedlink, a total logistics freight service combining rail and truck services using unit trains of box cars between Portland, OR and Los Angeles which were integrated with cross-docks and trucks for pick-up and delivery.

Gene had summer jobs with the AAR and Erie Lackawanna during college. After graduation, Gene joined with the Illinois Central Gulf Railroad in Chicago during the Paul Reistrup era. At the ICG, he managed the turnaround in profitability of the \$90 million paper and fiber business. Moving to the Southern Pacific Transportation Company he managed the \$200 million paper business segment. At the SP, he conceived then implemented a major logistics service with Crown Zellerbach. Today's presentation describes these two railroads and two of the strategic market development programs he implemented both pre and post Staggers.

Mr. Harmon has a BA in History from Lake Forest College, has taught logistics at the California Maritime Academy and LSU/MSU Logging School and worked with numerous interns seeking real world business experience as part of their MBA graduate work at UC Berkeley.

He travels extensively around the world, enjoys hiking, working out, reading, model building and photography. Mr. Harmon is active in a non-profit organization serving northern California.