

Intermodal Services Efficiencies Bolsters Freight Rail

More and more, shippers look to intermodal freight rail as a cost-efficient and flexible option within the supply chain solution

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With a rich history, the “magic carpet made of steel” (a.k.a. the railroad) has been transporting freight and goods since the late 18th century, and continues to build up steam. The February 2012 Railroad Industry Stock Outlook by Zacks Equity Research notes that U.S. freight railroads showed exceptional performance in 2011 “despite difficult weather conditions and an extremely volatile U.S. economy.” The report adds that during FY2011, shipments of construction components, lumber, and motor vehicle volumes increased over 30 percent, and petroleum product shipments rose 29 percent for the same year-over-year period. In the first half of January 2012, total rail carloads increased 5.5 percent year-over-year, of which intermodal volume rose 7.4 percent.

Intermodal services are cost-effective. The Association of American Railroads (AAR) touts that, on average, railroads are four times more fuel-efficient than trucks. The Intermodal Association of North America (IANA) reports an intermodal traffic increase of 5.8 percent in the first quarter of 2012 from one year ago, with the overall volume of nearly 3.5 million units setting an all-time record high.

“An intermodal container can be loaded in Southeast Asia, Africa, or South America; put on a steam ship to sail to the United States; land at an east coast, west coast or south coast port; then be loaded on a train and railed to an intermodal yard in Chicago, Memphis, or Kansas City; then be loaded on a truck to be opened fully intact from its original location,” says Daniel Smolensky, president of The Modal Group, a Chicago-based commercial real estate advisory firm. He continues, “Intermodal is becoming an option to more shippers because high fuel prices often make it a cheaper alternative to long-haul trucking. It’s becoming more flexible; the sustainable benefits (less fuel burned, [fewer] trucks on the road) are very attractive, and the seemingly inevitable shrinking pool of truck drivers has forced companies to seek alternative transportation options; so intermodal has been the benefactor of that mode shift.”

An Example

The KC Smart Port Regional Economic Development Group focuses on freight, transportation, and logistics in the 18 counties that comprise the Greater Kansas City metropolitan area. Chris Gutierrez, president of KC SmartPort notes that the railroad industry “has focused its attention over the last 5 to 10 years to improve its service and its infrastructure, putting capital investment into railroad tracks, intermodal yards, general commodity yards, and focusing on growing the efficiency and quality of service for their customers.”

Besides rising fuel costs, Gutierrez points out that the trucking industry is faced by a shortage of drivers (due to retirement and strict new driver regulations) and increased regulations for truck efficiencies and emissions. These factors are causing trucking companies “for the first time in a long time to embrace the rail industry.” Containers are traveling long distances on railroads and, after arriving at intermodal yards, the goods are trucked “the last mile.”

For greater efficiency, industrial parks are growing around intermodal facilities. In the Kansas City region, “BNSF railroad, Kansas City Southern (KCS), and the Norfolk Southern all have significant projects adjacent to industrial parks where companies can build their warehouse or distribution right at site,” says Gutierrez.

The AAR boasts that freight railroads generate nearly \$265 billion in total annual economic activity and support 1.2 million jobs. Every freight rail job supports another 4.5 jobs within the economy. Harmonizing with other forms of transport, catering to customers, and expanding intermodal opportunities seems to be keeping the rail industry on track.