

## OTHER VOICES

## Railroads' next big thing



CURTIS SPENCER

**T**he concept is not new. It is simply what Class 1 railroads have been looking forward to for years: A consolidation of their users into a single destination, with a third-party logistics provider taking the full unit train and distributing the customer's railcars to each user within a central business park design.

Is it happening now? Is this the new paradigm for rail service? Not yet, but it is moving in that direction. The result will be a win-win for shippers, railroads, developers and communities.

Class 1 railroads face a real-life dilemma that is not going away: a service crisis that affects every rail user that handles less than 1,000 boxcars or bulk cars annually. Simply put, there is not enough equipment or manpower to serve each customer at their existing locations within the current price structure. Everyone knows it, but the reality is that no one wants to talk about it because it is a tough problem to overcome. There is, however, a solution on the horizon.

Picture the entire community of rail users in a city magically transported to a consolidated industrial center that has first-class rail service for large and small customers alike. Suppose the "new minimum" rail volumes — which are currently increasing in order to obtain service — were no longer valid, and the smaller rail user could get its deliveries on time and at competitive rates. Suppose that a user's pain of leaving an existing location could be mitigated by the purchase of its land and buildings, making the

move to the consolidated park no longer so onerous that it kills off the user's business.

That picture is about to materialize. It will take the form of the Rail-Served Logistics Center, or RSLC. Among the major attributes of the RSLC are these: It would be located on trackage off the mainline, but close enough to ensure "easy-on, easy-off" access. It would be operated by a short-line or contract operator with ties to the developer of the center, or the Class 1 railroad, or both.

The logistics center would not negotiate freight rates for its tenants, but there would be assurances given by the Class 1 railroad that as long as the aggregate volume of the park exceeds the higher minimum standards in place for a single user, discounts would be offered. The RSLC also might have the financial strength to purchase and relocate a rail-served user to the RSLC.

The Class 1 railroad would cooperate in pricing and marketing for the RSLC to bring a threshold level of users to the park, and to continue such marketing so that the RSLC delivers true economies of scale (in terms of delivery times and better pricing) to rail users. The developer would be responsible for trackage development inside the RSLC.

The bottom line to each stakeholder is that this concept creates efficiency. It comes from each stakeholder maintaining its core competency while working together to aggregate demand, lower costs, increase services and maintain schedules.

Shippers win by being able to continue to receive their product mix even when their volumes are lower than the ever-increasing minimum volumes imposed by Class 1 railroads.

Railroads win by moving away from single-building delivery and by concentrating on their core competency, which is to build unit trains and deliver them efficiently and on time more than 1,000 miles away. Maintaining intercontinental tracks, manifest yards for train buildup, and keeping prices in check are what the Class 1 railroads do best.

Developers win by concentrating users in a location that the Class 1 railroads really want (off of their mainlines, out of downtown areas), with enough aggregated demand to create synergies of cost-savings.

Communities win by eliminating grade crossings, which are dangerous and cause traffic delays.

The business of moving freight has never been in the spotlight as much as it is today, with communities and the nation moving from a manufacturing society to an import-processing society. The time has thus come for the RSLC, and we will begin to see these facilities spring up in every metro area of the country, with service by each of the Class 1 railroads in those areas.

*Curtis Spencer is president of IMS Worldwide Inc., a Webster, Texas-based logistics consulting firm specializing in industrial real estate and foreign trade zones. He can be contacted at (281) 554-9099, or at [curtis.spencer@imsw.com](mailto:curtis.spencer@imsw.com).*