



Moving Industry  
in the Right Direction

# Rail Logistics Services Insights & Opinions

## Service Offerings

RSI provides a range of rail logistics services including:

- Rail rate benchmarking and cost analysis
- Rate negotiation and business case development
- Contract, quote, and tariff management
- Fleet management
- Modal competition
- Equipment leasing and subleasing

## Managing the Contract to Tariff Trend

The trend of rail carriers converting negotiated rates to tariffs is causing problems for many shippers. This article explains the history behind the trend and the ways in which shippers are being affected. Finally, suggestions are offered for how shippers can improve their rate management process.

Since the Staggers Act of 1980, rail shippers and carriers alike have mutually benefited from a deregulated environment. Shippers for the first time were able to leverage competitive lanes against lanes that were considered non-competitive. The results were lower, more competitive rates with the confidentiality created from rates not being documented in publicly accessible tariffs. Despite the apparent advantages to shippers and the erosion of carrier revenue, the rail carriers flourished as the larger, more aggressive carriers gobbled up market share in the form of railcar loadings. Over the span of the next 20 years and several Class I acquisitions and mergers, the few remaining carriers were able to turn operating efficiencies into profit.

However, beginning in 1999 the U.S. economy experienced a four year period of slow economic growth. The surviving Class I carriers began to feel the impact of lower rates and dwindling car loadings. In reaction, carriers began to reduce their labor force through layoffs and early retirement incentives. Additional cost reductions were realized by curtailing investments in infrastructure, rolling stock, and abandoning numerous low profit lines.

Then, in the third quarter of 2003, the U.S economy sprang back to life. Industrial output soared and import traffic nearly

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doubled from its previous levels recorded in the late 1990's. The North American Class I carriers were caught completely flatfooted in this transition, and immediately realized that they were operating at, or near 100% capacity. Most Class I carriers were reporting record sales, but marginal profitability. The rail carriers needed drastically to increase revenues. The obvious path was to transition shippers from contracts to tariffs. Tariffs allow carriers to change rates upon 30-days notice. This enabled carriers to base their rates on operating capacity and to increase rates to test what the market would bear. Interestingly enough, at the same time the trucking industry encountered its own issues with regulatory changes and driver shortages. This has led to capacity constraints and forced higher rates in the primary transportation mode that competes with rail. Rail carriers have received all of the market signals to move forward with tariffs and increase rates.

How are shippers dealing with this change? Many are struggling because most shippers do not possess the staff to proactively manage this changing environment. Most corporate logistics departments operate at lean staffing levels. At large firms, rail experts are often compartmentalized in functional and specific product areas. Whereas smaller firms often lack the resources to support a specialized focus on rail. Frequently, rail logistics professionals learn of rate changes when approached by their accounts payable department with a stack of rail freight invoices that are 4-8%

higher than their internal accrual indicated. To make matters worse, rail payments are due far sooner than most shippers are able to collect from their customers.

Is there more change coming and will rates continue to rise? Absolutely. If, or rather when, rail carriers begin to have excess capacity, we can expect to see a rekindling of the refund allowance scenario that was prevalent in the 1980s when the rail carriers provided per car incentives. In the meantime, carriers will be able to continue pushing through rate increases. This makes it more important than ever for shippers to improve the way they manage their rail logistics. This includes having the right tools in order to stay on top of rate changes.

The fact is managing rail shipping takes a lot more time and effort than it used to. Chances are, you can no longer lock in long term rates and forget about it until next year. A tariff environment means it's more important to regularly analyze shipping lanes and research routing options. It's important benchmark the rates for each shipping lane and commodity so that you can identify lanes that need to be improved. In order to do this, you need to understand rail carriers' cost modeling. Make sure that fuel surcharges are considered as you explore routing options. After focusing your efforts in this area you will probably find that internal processes for managing your rail costs need to be more nimble. Manila file folders and Excel spreadsheets are no longer sufficient for tracking and sharing rate changes. In large firms, managers that are separated by product line and geographic areas need to share information and processes.



RSI Logistics helps clients reduce transit costs and improve supply chain control through service products, consulting, and technology solutions. Our rate management services include rate benchmarking and cost analysis, tariff/contract management, and freight accrual and payment. If you have any questions about this article or want to learn more about RSI Logistics and our services, please contact us at [info@rsilogistics.com](mailto:info@rsilogistics.com).