Look Who's Riding the Rails

Why rail has become a viable option for grocery manufacturers.

A KANE Viewpoint

Slow service. Indirect routes. Poor visibility. Required increases in inventory levels. These are just some of the reasons consumer goods companies have given for avoiding use of intermodal rail for freight moves.

But rail service has improved to the point that products that would never have seen the inside of an intermodal container are now moving across the country at a lower cost and with a reduced carbon footprint. This paper examines the changes that have made rail a viable option for consumer products, and provides examples of companies that have made the shift from truck to rail, with impressive results.

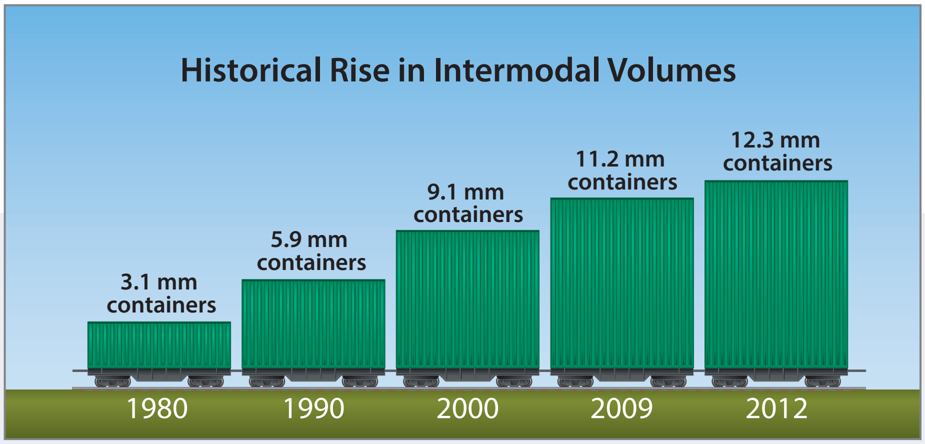
Rail Momentum Building

Much of the historical aversion to rail freight has disappeared as railroads have invested billions to make intermodal more reliable and cost effective. While intermodal is typically not a good option for short-haul moves, it is gaining serious steam for long-haul freight. U.S. rail intermodal volumes have gone from 3.1 million containers and trailers in 1980 to 12.3 million units in 2012.

According to transportation consultant Giles Taylor, the huge shift to intermodal is cost driven. "Intermodal could be 1-3 days slower than over-the-road trucking (OTR), but companies are looking to cut costs. That's the bottom line. They can lower costs at least 15%-20% with intermodal based primarily on fuel savings, so they are making the shift from OTR."

In the consumer goods sector, which traditionally accounted for a small percent of total rail traffic, the growing use of intermodal is aided by a wider window between the time an order is placed by a consignee and the "requested arrival date," or RAD. This window, sometimes two weeks to a month long, gives distribution professionals time to build consolidated loads and choose the most cost-effective mode.

"With intermodal, the pushback was always timing," says Taylor. "But with flexible delivery windows and faster service times by intermodal companies, CPG companies can choose intermodal and still hit their RAD commitment." Another factor driving up



the volume of intermodal traffic is the increase in container freight. According to the Association of American Railroads, in 1990 containers accounted for 44% of intermodal traffic. By 2000 that figure had risen to 69% and, in 2012, 87% of intermodal traffic was container freight. Unlike trailers, containers can be "double stacked" to increase productivity. This ensures there is sufficient density to keep intermodal costs competitive with truck movements.

What's Changed?

Just what has changed in the market and the rail industry to drive more freight to rail? Here are some of the major drivers.

Rising fuel rates.
Rail has been an economical response to rising fuel costs. According to CSX Transportation, rail is about 3.5 times more fuel efficient than trucks. This calculation is based on the number of miles it takes one gallon of fuel to transport one ton of freight for each mode. The more ton-miles per gallon, the less fuel required. In addition, an average train can carry the equivalent of 280 trucks.

"The primary driver for CPG shippers shifting to rail is the continued focus on supply chain cost reduction," says Amy Rice, director of marketing for CSX Transportation Intermodal.

Consolidation and cooperation among rail companies.
Once, coast to coast intermodal rail routes required travel through many different yards and the need to write contracts with different rail companies. Who was responsible for managing this complexity? You, the shipper! Today, Class I railroads work together to share lines, share boxes and execute seamless solutions through a single contract with the shipper.

Is Your Product Right for Rail?

Rail freight, either boxcar or intermodal, is not right for all shippers. Here are some triggers that may suggest you consider shifting from truck to rail.

- Currently running long-haul trucks with limited stops
- High OTR trucking costs
- Volume spikes for which truck capacity is difficult to obtain
- Company focus to reduce carbon emissions
- Good rail service on your key lanes and access to your freight markets

Improved service levels.
Greater cooperation across rail lines and significant infrastructure and equipment investments have improved service, with many more seamless connections between major freight markets. For instance, what was once nearly a week-long trip from California to the Ohio Valley can now be done in a predictable 4-5 days. Connections at rail yards are more streamlined, allowing service to all parts of the country.

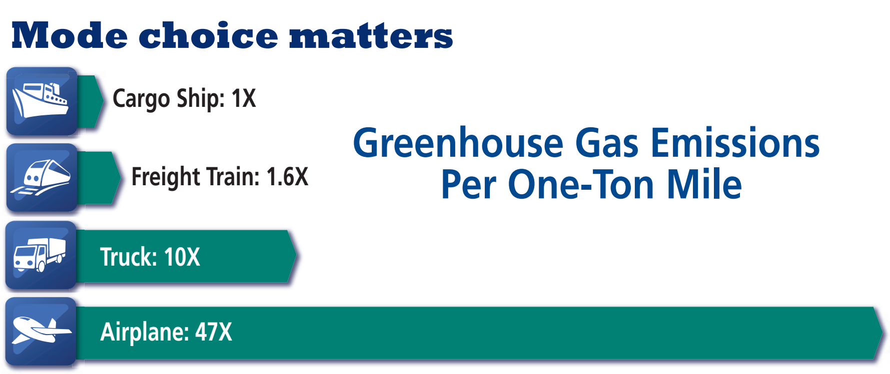
According to CSXT's Rice, "We can now offer a more truck-like network. Shippers are sometimes surprised at our ability to bring their product into markets they historically could not reach with intermodal rail."

Increased visibility.
Rail companies have made major investments in electronic monitoring to allow shippers to track containers anywhere in route. Readers placed along tracks and in rail yards capture the information, which rail companies make available on web portals.

Sustainability mandates.
Going green has shifted from a feel-good strategy to a boardroom-driven imperative. Logistics departments have gotten the message and sustainability has become an integral part of decision making on mode choice. Shippers are under pressure to choose the most environmentally friendly mode that meets the service requirements. According to MIT research that compared the greenhouse gas emissions of all major freight modes, trucking is 6 times more carbon intensive than rail (see graphic on mode choice).

Making the Move: OTR to Rail

Many consumer goods companies have recognized the positive changes in rail service in the last decade and are shifting a greater portion of their freight to rail. Following are several examples.



Source: David Simchi-Levi, *Operations Rules*

Ocean Spray and Tropicana

Sometimes competitors can be the best collaborators. Ocean Spray, famous for its cranberry juice, and orange juice giant Tropicana compete in the fruit juice business. After Ocean Spray opened up a distribution center in Central Florida, a third party logistics provider (3PL) approached the company with an interesting proposition. One of the 3PL's other customers, Tropicana, was shipping fresh fruit by boxcar from Florida to a point in New Jersey very near the shipping point for Ocean Spray's Florida-bound freight, which was being shipped in full truckloads. The proposition: use Tropicana's backhaul capacity to move Ocean Spray juice via rail to within 65 miles of the new Florida DC. Today's 80% of Ocean Spray's New Jersey-to-Florida shipments have shifted to rail.

The results:

- 40% reduction in transportation costs for this lane
- 68% reduction in CO_2 emissions, equivalent to cutting fuel use by 100,000 gallons

Constellation Brands

Constellation Brands markets a wide range of wines and spirits and, in this industry, rail is a popular option for long-haul freight. But historically that was not the case for expedited shipments, often required when distributors run low after a popular promotion or a heavy weekend. But changes in rail service and the addition of "expedited intermodal" services have made intermodal a viable option for rush shipments. According to Rick Anderson, vice president of logistics at Constellation, "It gets there almost as fast as a truck, at a much lower cost. And capacity is never an issue. In response to a Friday request for Monday pickup, trucking companies may not guarantee that a truck and driver will be available for a cross-country move, but my intermodal carrier will commit immediately."

Anderson admits that Constellation's rail rates are better than most due to the contracts he has with rail carriers for significant volumes, so his savings are greater than what many shippers would realize. Constellation's savings estimates for rail:

- 40%–50% on pure intermodal vs TL
- 20%–25% on expedited intermodal vs TL

Sometimes competitors can be the best collaborators.

GE

For this multi-billion dollar diversified product manufacturer, intermodal has been an increasingly important component of transportation strategy. Key goals for GE's use of intermodal rail include: spend optimization, improved service through reliable/ predictable cycle times and scalable capacity for growth.

Early successes with intermodal within GE Lighting and GE Appliances have sparked continued expansion of the strategy to other business units. Results have been impressive:

- Reduced transportation spend, in some cases as much as 50% over OTR
- Reduced inventory as reliable delivery times negate the need for large safety stocks
- Better labor efficiency as technologies and tools provide point-to-point pickup and delivery
- Reduced carbon footprint

WellPet

Pet food company WellPet ships primarily to pet product distributors and specialty retail chains, like Petco. Product ships via truckload from copackers and manufacturers throughout the country into a Northeast DC. Because WellPet's products are heavy, they usually reach maximum weight before cubing out the trailer, so the company looked for ways to improve efficiency and decrease costs. WellPet commissioned a supply chain study that indicated potential savings of over $3 million by using intermodal rail for a larger percentage of shipments. Those savings are coming from a combination of network redesign and increased reliance on inter-modal moves for long-haul and inter-mill shipments.

"Improved on-time delivery and predictable lead times have allowed us to use intermodal as a main mode of service in our inter-site traffic," says WellPet's Victor Guzman. "In fact, we have started using rail on customer-bound lanes. Many of the challenges associated with rail have gone away. Our confidence in using rail is high."

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Rail Deserves Another Look

Rail is the most economical and sustainable mode for overland movements. But consumer product companies have historically steered clear of rail due to slow, unpredictable service. Today, the gaps between truck and rail on delivery time, visibility and ease of use are closing thanks to significant investments in technology and infrastructure by the major rail companies. As a result, retail and grocery type products are traveling on rail for the longest part of their journey to market and, in the process, delivering major freight savings and carbon footprint reduction for their manufacturers.

What's your current mode mix? If rail represents just a thin slice of that pie, perhaps it's time to take another look at your freight strategy and how rail service might lower your costs while still hitting your time to market goals. You might be surprised at what you find.

About KANE

KANE helps consumer product companies get retail goods to market efficiently and effectively. We operate in every region of the U.S. and our logistics services include transportation, distribution, packaging, cross-docking, retail consolidation, and people logistics.

Looking for ideas to make your retail supply chain work better?

LET'S TALK

Contact KANE
p: 888.356.KANE (5263)
e: info@kanelogistics.com
w: www.kanelogistics.com