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RAIL – THE LEFT-OUT SERVICE ALTERNATIVE

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ABSTRACT

The trucking industry faces a number of issues as it tries to meet growing demand for services. Trucking services are stifled by three factors: (1) strict enforcement of hours of service requirements which preclude carriers from meeting scheduled appointments; (2) over-the-road driver shortages; and (3) the absence of tort reform or federal preemption to trump nuclear judgments which reach upstream to shippers and brokers. However, rail may be an alternative for a growing number of commodities. This article examines the viability of rail services for the wine industry.

TRUCKING CHALLENGES

Many current supply chain topics center around the changing retail paradigm of internet sales, home delivery, and cut-throat competition for lower distribution costs among retailers. As covered elsewhere, promises of “free freight and free returns” with lower inventories and point of sale real estate costs is driving many retailers to a combination of (1) inbound supplier to fulfillment center models; (2) truckload outbound pools (or middle leg movements) followed by (3) last mile delivery utilizing the postal service, straight trucks, and noncommercial motor vehicles (vans or sprinters).

At the same time, long haul truckload and stop-off truckload services are stifled by three factors: (1) strict enforcement of hours of service requirements which preclude carriers from meeting scheduled appointments; (2) over-the-road driver shortages; and (3) the absence of tort reform or federal preemption to trump nuclear judgments which reach upstream to shippers and brokers.

With this supply chain turbulence comes the hope that technology and science can reduce costs and improve service. Block chain is touted as a way to ensure supply chain integrity and automate shipping and tracing driverless trucks, or at least platooning is touted as a way to reduce driver fatigue if not driver expense and carbon emissions. Yet, the highways remain congested with no durable federal or state

funding in sight. And even drones are being examined as a way to avoid highway congestion.

RAIL AS AN ALTERNATIVE

Often left out of contemporary logistics discussions is a missing piece of the puzzle – the role of rail service as a viable inbound logistics alternative.

TOFC and COFC rules have been around for 40 years. Without much direct marketing, the main line railroads with few exceptions have left marketing of intermodal rail service up to intermediaries and major truck lines offering substituted motor for rail services. Maybe now is the time to consider the future role of rail before more effort is put into developing driverless truck-trains to operate on broken down and congested highways.

For example, one of the least likely commodities to be shipped via rail car, wine from California’s wine country, found a new mode on America’s railroad lines as crude oil prices, followed by diesel prices rose dramatically in 2008. Now ten years later, there is still significant volumes moving via Intermodal rail.

Despite tight truck capacity and driver supply problem from the economic upturn; most wine still moves coast-to-coast via truck. The thought of putting precious, highly-valued wine cargo on the rail, in a boxcar, is still a rarity. While in the past, rail was considered too slow, or too hot, or too cold, or

just too much trouble. However, with diesel fuel hovering between \$ 3 and \$ 4 per gallon, rail transport still finds favor among some of California's fine wine producers. Of course, Intermodal Containers have been used previously to transport wine via rail. Likewise, box cars are more daunting in their size and sometimes troublesome loading and unloading.

Northern California's best-known wine producing area produces about 33 million cases of wine annually. Statewide the total is approximately in excess of 250 million cases! Or, an astounding nearly 3+ billion bottles.

If the winery or wine consolidator doesn't have a rail siding, loading must be done at the rail site from truck to railcar. Likewise, most wine distributors do not locate adjacent to rail sidings. So trucks are likely needed at both origin and destination; then why the switch to railcar? Fuel costs! The escalation of diesel prices has pushed the cost of moving a 53 ft. trailer from California's wine country to Florida to nearly \$6-7, 000.

A box car can hold 3 1/2 to 4 trailer loads and move the boxcar the same distance for a cost of only \$4000! Even if an added \$250-375 may be added at both origin and destination for transfer of the boxcar load, the savings are still substantial and very worthwhile! As points of reference, a boxcar can load 4,300 to 5,000 cases of wine while a 53-foot truck trailer loads about 1,235 cases.

This adds-up to other benefits also in that 4 trucks for every railcar utilized are removed from the highways, lowering congestion while saving over 2,000+ gallons of fuel the trucks would have consumed. In fact, according to the Association of American Railroads, the AAR, freight trains can, on average, move a ton of freight 436 miles on one gallon of diesel fuel. Obviously, this makes costs for movement tremendously economical, comparably speaking. Trucks move, on average 46,000 pounds of cargo around 6-7 miles on one gallon of fuel, or about 0.25 miles per gallon per ton

The most evident drawback to rail shipping is time in transit. Inventory carrying costs are minimal compared to the savings in transport costs. Now the wine can ride securely in the newer, better insulated, temperature controlled and monitored railcars. Speed-to-market does suffer when a routine inventory replacement system is in full use. Rail service to the mid-America and the east coast takes 4 to 9 days while a truck can cover the same ground in 2.5 to 5 days. Therefore, for distances over 500 miles, rail just makes sound economic sense.

Kendall-Jackson and The Jackson Family wines are major supporters of rail shipping. Gallo wine group has been involved in rail shipping for over 85 years in some form or other. Gallo dates to the days when wine was bulk shipped in casks and barrels, so their history covers lots of shipping innovations. Today they use insulated boxcars, shipping over 12,000 of these annually. These cars are very effective in controlling heat and cold temperature swings.

Other wineries and consolidators are still skeptical, pointing out that rail service and tracking and tracing has been unreliable for years. Some are true believers that nothing can protect and transport their fine wines better than refrigerated truck trailers. And, that until a train can make the journey to Texas in a day & a half, or to Chicago in two, trucks will remain the mode of choice.

Clearly, increased tracing technologies and economies of rail service for volume shipments should encourage third party consolidation by freight forwarders or consolidators.

That can work for a number of wineries. Their job is to bring wines from the various winery locations together for final shipment to distributors, who can be independently-owned companies or state-owned ANC distribution centers. The consolidator usually can choose the shipment mode and exists to get the best service at the best price and lowest cost for the wineries he represents. So rail, when it meets the service requirements of the wineries and their customers is a cost-effective choice

One “wine consolidator”, based in Napa, reports that he moves about 30 million cases of wine annually, about 25% by rail. In 1998 his company loaded about 100 railcars yearly. This year he will load over 5,500 railcars+. His company invested their own money to build the spur line from the short-line railroad that connects Northern California to the long-line rail route to the East. This reduced the costs of loading and transfer of the cases from the wineries to the warehouse to the railcar.

Time, innovations and economic conditions will tell as to the real potential for increased rail boxcar and COFC shipments. However, as long as diesel fuel is costly and truck capacity is tight as it is today, look for more and more of heavy long distance shipments to be consolidated to ride the rails.

I believe the above chart is viable for long distance deliveries, particularly for wine and other heavy shipments. Also, rail is up to the task for the following reasons:

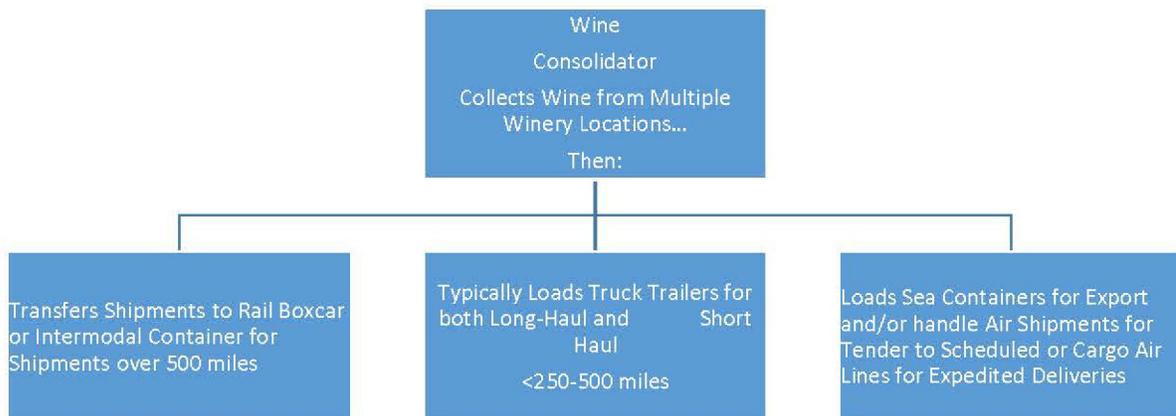
1. Class 1 railroads make private investments to improve infrastructure and buy new equipment totaling a staggering \$25 billion annually.
2. Railroads offer competitive advantage over trucks for moving millions of truckload shipments per day from otherwise congested highways.
3. Railroads “continue to invest, develop innovative new products, and serve [their] customers’ most critical supply chain needs.”

Clearly the privately funded rail alternative to long distance trucking service offers economies of scale, conserves energy, and removes wear and tear from deteriorating highway systems.¹

(Footnotes)

¹ “Railroads Power . . . U.S. Economies” by Hamberger and O’Malley, Guest Columnists at Tennessean.com 1/2/19 at p. 11A.

**FIGURE 1
VIAIBLE RAIL DELIVERIES**



BIOGRAPHY

Charles W. (Chuck) Clowdis has nearly five decades of experience in the transportation, supply chain and logistics fields covering all modes: air cargo, barge, drayage, inland port operations, motor carriers, port operations, private fleets, railroad and rail intermodal, and third-party logistics. He has provided best practice consultancy in the areas of administration, interim management, operations, sales & marketing, and related activities. His clients include both service providers and buyers of those services. Clowdis also serves as both a testifying and non-testifying expert opinion witness in litigation matters. He has testified in federal, state and government administrative tribunals, working directly with clients as well as attorneys. His career includes progressively more responsible executive positions with several motor carriers, nearly three decades associated with the National Transportation Practice, at Ernst & Young; and nearly ten years as Managing Director-Transportation with IHS/Global Insight, the economics, data research and consultancy. In December, 2017 he formed Trans-Logistics Group, Inc. to offer consulting and litigation services to select clients throughout North America. He holds degrees from Young Harris College and The University of Georgia and was Chairman and President of the American Trucking Associations' Sales & Marketing Council. He prepared two books for the ATA and published nearly two hundred articles and white-papers. E-Mail: chuckclowdis@aol.com