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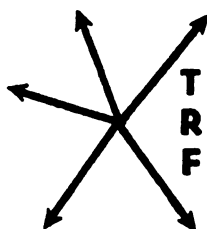
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TRANSPORTATION RESEARCH FORUM

New Techniques to Develop Effective Carrier Marketing Strategies

by Douglas D. Hagestad*

AT THE 1978 ANNUAL Convention of the Transportation Research Forum, Michael A. Mullens, Gunter P. Sharp and Paul S. Jones of Georgia Tech, presented an excellent paper entitled "Development of a 47-Commodity Flow Table for BEA Zones." In this paper, Mullens, Sharp and Jones indicated ways information from the Census of Transportation, Census of Manufacturers and other pertinent data sources could be merged to form a comprehensive data base which would depict commodity flow patterns for various industries.

The Illinois Central Gulf Marketing Department has used a model similar to that described by these three men to enhance its own Market Information System. Models such as this play a vital role in ICG's marketing efforts. Today I would like to share with you some companion thoughts to the proposals made by Mullens, Sharp and Jones — the use of such data in the development of effective carrier marketing strategies.

In 1975, when the Illinois Central Gulf began exploring ways in which data from the U.S. Department of Commerce Census of Transportation, Census of Manufacturers and other sources of commodity flow information could be used to enhance our marketing efforts, we encountered many surprises. Probably the greatest surprise was the limited number of practical applications other carriers had developed over the years employing this data. Some discarded the data altogether citing statistical sampling difficulties or the lack of full coverage of certain industries. Others were using the data, but only in the broadest types of market research activities. Only an insignificant number appeared to be making any attempt to use the data as a base from which to develop truly meaningful, customer oriented, marketing strategies.

The Illinois Central Gulf candidly admits it has found certain problems in using the data. However, we believe this information can indeed form the base for effective marketing programs and decisions. Furthermore, we are encouraged by data enhancements which have

either been implemented or planned that will make its use an even more vital tool in the future.

In making this presentation today, we do not claim to have found all the answers in creating effective marketing programs. Rather, we hope our presentation can be used as a catalyst to stimulate all of us to think about ways to improve carrier marketing programs.

The Census of Transportation forms the backbone of a comprehensive, ongoing marketing program which we refer to as Lane Development at the Illinois Central Gulf. While it encompasses involvement of all elements of Marketing, its success is most dependent upon the interactions and inputs of our Market Development, Pricing and Sales departments. Lane Development is orchestrated by Market Development.

One might ask, "What is so unique about Lane Development?" Many carriers have Market Development or market research functions. These market managers have the responsibility for developing marketing programs in specific commodity areas. In fact, we use this same orientation at ICG in which our Market Development activities are structured around product groupings. Much of what we do in Market Development has a distinct commodity orientation to it. Such innovations as Truck-Rail-Truck for steel, Rent-A-Train for grain and Slingshot for piggyback are examples of some of our own successful, commodity oriented programs.

Our Lane Development program causes us to shift this focus and look at our commodities in another way. In addition to looking at our opportunities from the perspective of a single commodity, we group commodities and examine overall business flows on a geographic basis. We thereby focus our efforts on specific lanes or corridors looking at all the relevant commodity flows at once. The basic thrust of ICG's Lane Development program is to answer this two part question: "In what marketplace are the greatest business potentials, and what total package must be put together to draw that potential to the ICG?"

To answer the first part of the question we used our own internal Market Information System to develop general state-to-state tonnage flows of existing

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ICG business. From this information, we were able to segment our railroad into nine corridors. These nine corridors are:

Chicago-Council Bluffs
 Gulf-North (New Orleans/Mobile-Chicago)
 Chicago-St. Louis
 St. Louis-Kansas City
 Chicago-Southeast
 Kansas City-Southeast
 Shreveport-Southeast
 Memphis-Louisville
 Memphis-Birmingham

While evaluating present flows is helpful in understanding one's market, it clearly does not speak to the identification of potential business opportunities. This is where the Census of Transportation and other governmental sources were invaluable.

Using the latest Census of Transportation information, we grouped the state-to-state commodity flows to correspond to the definitions of ICG's nine previously described lanes. Because the Census of Transportation does not describe flows for bulk commodities, this information was provided by data from the Maritime Administration, the U.S. Department of Agriculture and other sources. The result was that with only a minimal amount of effort we were able to describe an approximate market potential and market share for each of ICG's nine basic lanes. Because information about the percentage of business handled by common carrier trucks, private trucks, water carriers, railroads and other types of carriers was also readily available, we were able to assess our share of the rail share and derive a broad picture of the nature of the modal competition faced in each corridor.

The next step was to make a broad evaluation of the opportunities in each lane in an effort to establish the order in which each would be evaluated in detail. To accomplish this task, each Market Development Manager was provided with more detailed information about the corridor by corridor commodity flows for which he was responsible. Each was asked to review this data and evaluate the lanes in accordance with ICG's ability to capitalize quickly on the commodity potentials. This assessment was based on his general knowledge of the needs of the marketplace as well as the capabilities of our railroad to fill these needs in each corridor.

Thereafter, an intensive meeting was held with the Market Development Managers and key Sales and Pricing officers. Each Market Development Manager provided an overview of the potential, our market share, the modal com-

petition and some general thoughts on market needs based on initial analysis. The ultimate rankings were made on both objective and subjective criteria which assessed our ability to provide the changes necessary to make a significant market penetration. The Market Development Managers led a candid discussion of ICG's strengths and weaknesses in each corridor. We discussed the nature of the service improvements necessary to improve our position. Was the service partially or totally under our control? Did we have the ability to make price changes in each corridor? Would a major infusion of capital be necessary to increase our penetration? What was ICG's image in each market? It was in developing answers to questions such as these that we decided to attack our Iowa Lane between Chicago and Council Bluffs first. It was decided that upon completion of this study it should be followed by a second thrust in the Gulf-North Lane (which participants in computerized business games would call our "home market").

One might be surprised in the choice of these two markets for our initial thrust. A few comments about each might serve to illustrate the inter-play in the ranking process. There was a great deal of sentiment to proceed with the Gulf-North Lane first. Rates and service were well within our control in this market. Nonetheless, we decided to make this our number two thrust. The reasons are interesting. First, we had just recently inaugurated two major service improvements in this corridor. These were our coordinated services with Conrail via Effingham, IL and with the Norfolk and Western at Tolo, IL. The volumes were building and a major sales effort was directed at enhancing the tonnages (actually both of these were an offshoot of a test run of the Lane Development Concept on an abbreviated scale). It was felt that because sales involvement was so necessary for the success of Lane Development, we might impair our ability to develop the immediate business potential in connection with these two promising new services. Second, major line improvement programs were being undertaken on two key ICG lines in the South, which, when completed, would significantly improve our ability to capitalize on the potentials we had identified. Moving forward with the Lane Development program immediately would mean that we could possibly have to delay implementation of the program until these improvements were completed. Since we desired the quickest payoff for our efforts, we decided to defer the Gulf-North Lane and select another.

But why the Iowa Lane? Simply stated, the Iowa Lane was the ICG corridor most ready for development. It was a large market with a low ICG share. In addition, it was largely a rail oriented market. While the ICG's presence in this corridor was not well known — (the best kept secret in the country was that the ICG even had an East-West main line between Chicago and Omaha) — we had recently become the principal mini-bridge carrier on this route. This proved to us and our customers that our route was clearly as viable as any other rail alternative. Thus, we could capitalize on our mini-bridge reputation to develop general freight potentials if proper service could be developed. While we had only moderate control over price levels on this corridor, service was well within our control. This was due to the high quality service rendered by the Union Pacific and our highly efficient connections to the South and East in Chicago. Thus, it was decided the Iowa Lane would be our first large scale Lane Development project.

Perhaps at this point it would be well to describe what we mean by the "Iowa Lane." The flows under consideration were those between the entire West Coast and the northern tier of Western states, and the northern tier of Central and Eastern states and the East Coast from Virginia into Canada. It has also included certain flows to and from the Eastern Canadian provinces and, of course, the State of Iowa itself.

The Illinois Central Gulf fits into this flow with its route from Chicago to Omaha. We have direct, efficient connections at Chicago to the east and northeast with such major carriers as Conrail, Grand Trunk and the Chessie System. Our major connection on the western end of the route is with the Union Pacific which provides good service to virtually all West Coast points either directly or through its own connections. The major intermediate cities on ICG's Iowa Lane are Rockford, Waterloo and Ft. Dodge.

The Census of Transportation told us this was a big market. It produced roughly 134 million tons per year. Using ICG's average of 61 tons per load, this translated into approximately 2.2 million carloads a year. The rails handled two-thirds of the tonnage and common carrier truckers handled a little over a quarter of the business. Other modal shares were relatively minor.

This is the information we gained from our basic analysis of the market. Given the fact that something was moving over this corridor, it now became the responsibility of the individual

Market Development Managers to determine exactly what commodities made up these known volumes. Who were the shippers and receivers? What modes and carriers were presently handling the business? What combination of ICG price, service and equipment was needed in order for us to capture more of the business?

The Market Development Managers employed a number of business sources. Besides more detailed breakdowns of the Census of Transportation data and internal ICG data, they also had Waterborne Commerce Statistics as published by the U.S. Army Corps of Engineers, which provides detailed data on movements of commodities on the waterways and canals of the United States; U.S. Department of Agriculture Statistics, which gave movement and export data on farm products; and various industrial production guides and commodity profiles which gave origins and volumes of production for various commodities.

However, none of these data were so exact that it could pinpoint actual producers and consumers. Therefore, the most important data source available to our researchers was our customers and our field sales force. Our field sales force became deeply involved in the flow identification phase of the study.

Once we found a substantial volume of a particular commodity from one of the statistical sources, we then went to industrial guides to identify producers in the origin area. The next step was field contact. In many cases, ICG sales personnel were able to identify the customers involved in these flows. In cases where this was not possible, telephone or direct sales contacts identified the shippers.

At this stage our purpose was not to solicit the business. Often this required restraint on our part. Rather, the purpose was to verify that a flow did, in fact, still exist, the present size of the flow and the customers' logistical needs.

Periodic meetings were held to assess progress. A master file of identified market needs was developed for the purpose of establishing general trends. Based on these trends, service and equipment planning specialists began to shape the structure of ICG's proposed new services in this corridor.

Many markets formed this shape. They included a 3,000,000 ton market of steel products moving by truck from the Gary area to Iowa. Large volumes of tires and paper were identified moving from the East to West Coast destinations. Our participation in the Trans-Continental flows of fresh and frozen vegetables was examined. New potentials for grain moving by truck and

barge from Iowa origins to the Gulf of Mexico were evaluated. Also adding to the flows were movements of canned goods, soda ash and gypsum products.

After a cost/benefit analysis, the need to move into the implementation stage became apparent. Meetings with key officials of the connecting railroads were held to establish the structure of proposed service changes. Then, on October 1, 1978, the inauguration of the Continental Connection was announced by the Illinois Central Gulf. The Continental Connection represented a major improvement in ICG's rail service in this corridor. It represented one completely new train and the rescheduling of several existing trains. New freight car classifications and expedited yard services were initiated. New priorities were established.

A major sales program was initiated. There were two important aspects of this program. The first was the development of a sales manual which included all known information about the market the Continental Connection was designed to serve. Manuals were individualized for each sales area. Census of Transportation data indicated the area's major commodity markets and individual customer listings were prepared showing the most likely prospects in each of these markets. Summaries of customer interviews were included as they pertained to each area. In addition, the manuals included detailed descriptions of ICG's services provided by the Continental Connection as well as those of competitors.

The second aspect of this sales program was the promotional campaign itself. Attractive sales brochures were prepared and "Continental Breakfasts" for key shippers were held to highlight the service's features. Of particular interest to ICG's customers was the amount of effort we had taken to assess the needs of the market in designing this new service. We illustrated that our company had indeed made a major effort to identify market needs and structured the Continental Connection to

fulfill those needs.

Before presentation to our customers, intensive training programs for involved sales personnel were held to ensure that everyone understood the characteristics of the operation, the benefits of the new service and the targeted markets. Specific dates were established for contact of the top prospects. A monitoring system was developed to track business growth against predetermined expectations.

Initial success of this service has demonstrated that the use of Census of Transportation data as a platform from which to build successful carrier marketing strategies is indeed practical. While care must be taken in the use of the data, it can, nonetheless, successfully guide carriers in developing markets. As with any data, Census information cannot be used independently but should be used in conjunction with other sources to enhance its usefulness. Hopefully, improvements already implemented and others planned will make this an even more powerful tool for carrier marketing departments in the future.

In our judgment too much of the rail carrier marketing effort is wasted in railroad versus railroad solicitation. This may well be because so little is known about the transportation market itself. Data from the Census of Transportation focuses on the market in total and can lead to a better identification of market needs. Of course, use of Census Data alone will not spell automatic success in the marketplace. It must be supported by a total Marketing effort, a thoughtfully designed service package and well disciplined implementation. However, use of Census Data is a major element in a Marketing oriented approach which starts with customer needs and builds on that point.

When carrier services are designed around true physical distribution needs, a major step will be taken in reversing the decline of the rail industry's participation in the total transportation market.