

PROGRESSIVE RAILROADING

.. the executive viewpoint



Trailers, containers through the Feather River Canyon

WP's Bruce:

**"The Changing Focus
in Railroad Marketing"**

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THE COVER

It's containers. It's trailers. These days, a great variety of both passes through the Feather River Canyon on fast Western Pacific freights.

It's scrap steel. It's night movements. It's sales strategy. It's selling individually and as a team.

It's that combination of customer-oriented activity railroads have already come to know as marketing. But it's also some new twists in marketing. It's even working at physical distribution as shippers do.

And why shouldn't railroads arm themselves with physical distribution capabilities to better serve shippers?

It's the newest forms of marketing which Harry J. Bruce, vice president-marketing of the Western Pacific, writes about in the special feature of this issue.

New Elements in Railroad Marketing

The idea of thinking about the customer, of paying attention to his needs, is obviously not new. Companies have always had to do this in order to exist. There are at least two new elements in the picture that cause this attention to customer needs to be a different problem and far more difficult for railroads. First there is company growth — introducing more and more distance between the customer and the relevant action point in the company. Second, most growth companies have added many products, each requiring a certain amount of individual attention in order to market and distribute effectively.

These important changes in various companies' production, marketing and distribution techniques require a significant change in the focus of railroad marketing.

However, marketing means different things to different people. For some it means to purchase groceries. This definition, obviously, most businessmen would not adopt. Nevertheless, for many people (including writers of dictionaries) this is what marketing is all about.

A definition offered by John Howard, Professor of Marketing at Columbia University's Graduate School of Business, defines marketing this way: "Marketing is ascertaining, creating and satisfying the wants of people, and doing it at a profit." He further states, "There is no pretense that this definition is perfect. But it does state the ultimate objective of marketing, which is to make a profit; also it clearly defines the way in which the objective is realized: by learning and satisfying the wants of people. Marketing is as simple as that."

My favorite definition is practically the same: *Filling customer needs at optimum profit.* Best of all, this definition takes only six words instead of 16. It also states the ultimate objective of marketing as making a profit but *adds* the word *optimum* to it. For me, this adds the dimension of profit — short and long range. In other words, profit over time is the goal, not just profit right now, and this in turn means profit for the railroads and our customers.

Before discussing marketing opportunities in the railroad industry, I would like to set the stage as to how a railroad marketing department could be organized.

Important changes taking place in production and distribution techniques require a significant change in the focus of railroad marketing



By HARRY J. BRUCE

VICE PRESIDENT - MARKETING

WESTERN PACIFIC RAILROAD COMPANY

The author brings to this vital field of railroad marketing a rare combination of experience and talents. His career has spanned the fields of railroads, trucking and industrial traffic management.

Harry Bruce began his railroading career with the Delaware, Lackawanna & Western as a locomotive fireman and served stints with the Southern Railway Company and the Missouri Pacific. He has been transportation research assistant for U. S. Steel and was vice president-marketing for Spector Freight System, Inc., responsible for market development functions and management information systems. In 1969 he joined the Jos. Schlitz Brewing Company as director of distribution.

He was elected vice president-marketing of the Western Pacific Railroad Company on December 1, 1971.

Bruce has by-lined over 25 articles and has authored two transportation and distribution books, "How to Apply Statistics to Physical Distribution," (1967), and "Distribution and Transportation Handbook," (1971). He is a graduate of Kent State University and took his Masters degree in transportation economics from the University of Tennessee. Mr. Bruce is also a member of the Board of Directors of Trailer Train Company.

Let me hasten to add that this is put in the context of how it's working on the Western Pacific; what might be riches for one could be ruin for another. I realize that the organization of our marketing department may not be suited to the organizational structure of every railroad, but it is the kind of organization that we have, and it is working on the Western Pacific.

In the broadest sense, we look upon marketing as a dual function — strategic planning as one element, and tactical planning the other. (See diagram next page.)

Strategic planning is the essential ingredient in market development, i.e., planning that is based on analyzing the business opportunities; the commodity flow patterns; the particular industries we are currently serving, and more important, those we are not serving; how we can do a better job of meeting the needs of those industries; and how to attract them to Western Pacific.

The market manager must come to the job with hands-on capability, emphasizing experience in the industry so that he doesn't have to ask the basic questions

that these two basic functions work together. They must work together because selling alone is not marketing. Selling concerns itself with the techniques of getting people to exchange their cash for the transportation service. It is not concerned with the values that the exchange is all about. And selling alone does not, as market development does, view the entire business process as consisting of a tightly integrated effort to discover, create, arouse and satisfy customer needs.

The Problems of Noncommunication

Unfortunately, there are past examples which indicate this coordination has not always worked well, resulting in too much interdepartmental warfare, if I may use that strong a statement, between market development and sales. Problems are predictable when we fail to communicate properly to everyone within the organization the exact goals and aims in establishing a market development function.

I would define market development in the railroad industry, and perhaps even more broadly in all of the transportation industry, somewhat differently than for a manufacturing concern. The reason is that in developing markets for a railroad we are concerned with factors that involve both economics and engineering. Therefore, railroad market development is a combination of economic and engineering systems analysis.

On the one hand, there is the economic analysis of the business, or analyzing the commodity flows and the locational factors: why businesses are located in certain areas, where their distribution centers are, and evaluation of their channels of distribution.

Second, there is the engineering analysis required to determine the kinds and quantity of equipment that is necessary to service those particular industries.

So we have a combination of economics and engineering; and tied to that is systems analysis. (Engineering, by definition, insists that problems must be systematically analyzed.)

Included in market development are the pricing functions, equipment planning, market information and the market managers.

The market manager function is not necessarily new to the railroad industry. But, in order to make this position effective, we must define clearly what the market manager does, who the market manager should be, what kinds of experience he should have, and how his function interrelates with that of sales.



C. R. McNeal, supervisor-customer services, briefs M. C. McManus (left), director-operations at WP's Train Location Board

The market manager and market development can only function as integral parts of the total marketing effort — and they must carry over from the area of strategic planning into the area of tactical planning for sales. The market manager must be carefully selected. He has to come to the job with hands-on capability; with emphasis on experience in that particular industry to which he will be assigned so that he doesn't have to ask too many basic questions. If he is too inexperienced or untrained in the basics of a customer's business he will soon lose credibility with the railroad's sales personnel and be an unwelcome guest with the customer.

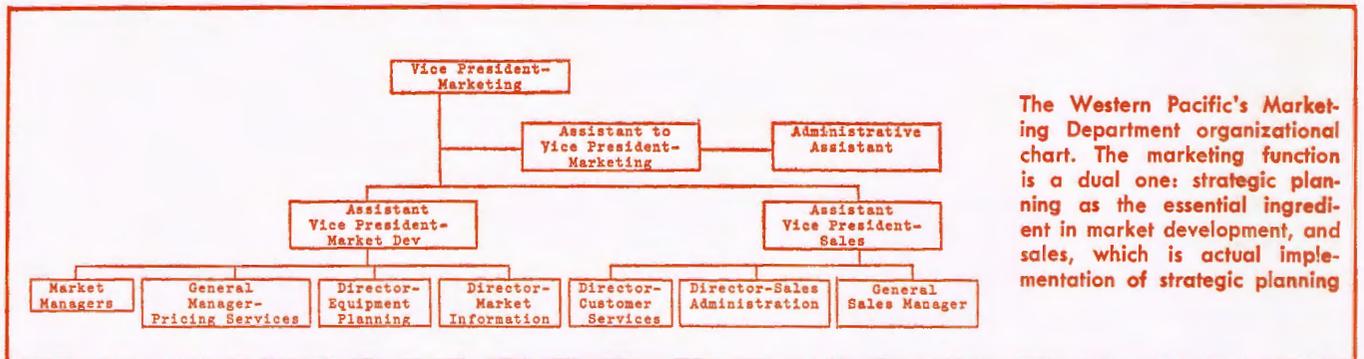
The market manager has to be a systems analyst. He should ideally be a man for all seasons. Not only should he be able to come in with a hands-on capability, understanding the problems and needs of that particular industry, but he should also be a man who can sell his ideas. Sell his ideas within his own company first, and then be able to work with the sales force and sell his ideas and programs to the particular industrial shipper with whom he's dealing. Now, it's not all that easy to find a person with these kinds of talents. But they are available. They can be found if you go about the selection process with extreme care.

It is the mission of the market manager to be able to identify the total business problem.

Railroads Initiate Distribution Programs

A number of activities that our market managers have undertaken have been classic cases of how to turn a customer's distribution problem into an opportunity that produces profitable results. One such problem for us was scrap metal.

Historically, the railroads have taken a dim view of iron and steel scrap, but the market analysis that was conducted determined that there were over a million



The Western Pacific's Marketing Department organizational chart. The marketing function is a dual one: strategic planning as the essential ingredient in market development, and sales, which is actual implementation of strategic planning

tons of scrap being exported from the San Francisco Bay area. At the same time, the scrap dealers were facing shortages of rail equipment needed to move their scrap to the ports.

The market manager began taking a look at this particular area of business and found that the scrap dealers were very willing to listen to suggestions and work with the railroad in an effort to solve the problem. The result was that the scrap dealers were agreeable to 24-hour loading, 24-hour unloading, and also were willing to pay for damages to the railroad equipment caused by their loading and unloading operations. On this basis we were able to set up a closed-loop type of schedule for moving the cars to the ports. We are now moving this commodity at a profit to the railroad and at a profit to the scrap dealers.

Another project that is bearing some good results is in the international field. Identifying commodities by state of origin among the major segments of business moving through the ports of California, we have been able to go after some of that business which previously had been truck-oriented, as opposed to attempting to steal it from "ourselves" within the railroad industry. In finding out what the motor carriers are handling, we are then determining how we can put together distribution programs to go after that segment of business ourselves.

Blue-Sky Ideas

The market manager function must be carefully managed in order to be effective.

If left to their own devices in making up their own projects, they may have certain esoteric ideas as to what they'd like to analyze and study. Different things will interest different people, and a market manager or market analyst can get excited by some pretty blue-sky ideas — things that don't offer immediate pay-out. The market manager, or anyone in the market development area, should take on project tasks that offer the potential of fairly short-run pay-out. This is especially useful at the start of a market development program when it is important to build a track record of tangible financial results.

It is also important that the market manager's activities be pointed in the direction of the selling effort within the company. Again, it should be emphasized that it is important to tie in a market manager's activities with the sales organization in terms of solving the problems and solving them in a practical fashion.

The market development function must consider itself part of the sales team, but it must not grow out of proportion to the selling effort. All members of a market development group should be working at such a pace that they can't keep up with all of the projects they have at hand. *Keep it lean, don't let it get fat.*

It is also important to separate the long- and the short-term projects. One important reason for differentiating these is that some people are more long-term oriented while others can best be assigned to the projects which will bring more immediate results.

Finally, management should insist on recommendation. Reports should always be action-oriented. It is far too easy for a market development group or a market research group to study a problem, and then develop a voluminous report that, in the end, lacks specific recommendations. Once a market manager gets into a particular project in depth, he should know more about it than any other person in the company. He obviously becomes the best qualified to render specific recommendations.

The market development group should not be the only

area within the total marketing effort to use modern tools and techniques. Railroad sales departments should employ new skills also.

Merchandising manuals, for example, are tools that the industrial salesman uses continuously; tools he has been using for a number of years. To develop these tools in railroad marketing we must ask ourselves some basic questions. What is it the railroad salesman is selling? What is it he's trying to communicate to a particular buyer of transportation? The answers: he's selling equipment, he's selling services, he's selling prices; he should also be selling industrial development activities for his particular railroad.

All this has to be put together in a formalized fashion which we refer to as the merchandising manual. Properly equipped, the salesman comes to the customer with a device from which he can make an organized presentation of his wares, using pictures, maps, folders, and schedules to identify effectively his particular "product," and to sell its specific advantages to the customer. Isn't this what it's all about in marketing? Differentiating the product offering, putting your product before the buyer in a different fashion from the competitor — all for the purpose of creating customers?

(Continued)

TOFC train, between Oakland and Salt Lake City, coils through Feather River Canyon connecting WP with Rio Grande and UP



It is important that new programs produce pay-outs quickly to build track records of tangible financial results

Another area of selling that needs examination is sales production. What are the salesmen doing on a day-to-day basis? What do they do when they come in in the morning? How does a salesman plan his daily activities, his weekly activities, monthly, annually? Every salesman should be able to make at least eight to 10 calls per day. Most salesmen would say it can't be done. But when demonstrated in the field that it can be done, they are amazed to find that they actually are able to attain this production. It is then possible to establish sales quotas for each individual account in a salesman's territory.

But before quota systems can be established we must have a proper analysis of the sales territory. And sales territories sometimes grow — Topsy-like — uncontrollably. In the absence of a formal plan, there just isn't a proper structuring of the activities of salesmen within a given territory.

Territories must be analyzed geographically and salesmen must be routed properly within a particular territory. In many cases, a salesman can become very comfortable with certain accounts. He falls into a trap and his route becomes a rut. He'll keep calling on the same old accounts. These are probably very good accounts, his prime accounts, and they produce business for him; but what about all of the sales calls that he is not making? What are the prospective accounts? Their potential?

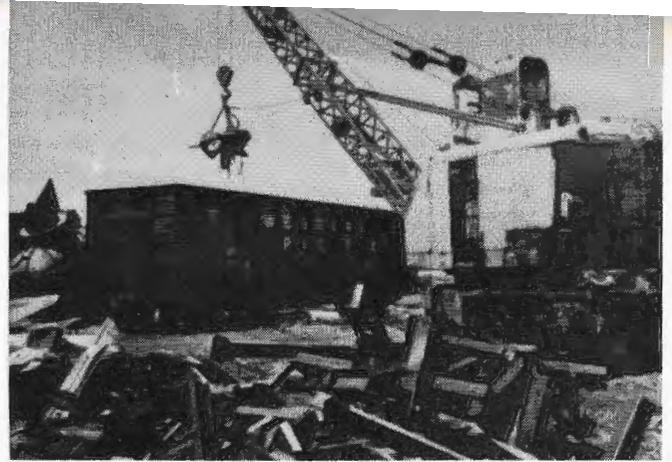
I don't believe that it's really the salesman's function to analyze by himself all that goes on in his territory. He must have help, and here again we come back into the market development area. Market information staff research can tell him a great deal about his territory. Such a group can be assigned the task of analyzing given territories geographically — the numbers of firms within the territory, and their commodity flow patterns. These are tools that are readily available to all of us. This is information that is basic and of utmost importance to every salesman and sales manager.

"Smoke-Stack" Counting

In the past, much "smoke-stack counting" has been the rule. A salesman might say, "This is a good freight town." But how does he really know? Where else does that industry have its manufacturing plants? Where are its distribution centers? What are the commodity flow patterns? Is it really a good industry area or is it one that has commodity flows that don't tie in with his particular railroad?

Optimum staffing is another matter that needs to be given a great deal more analysis in the transportation industry and by the railroads in particular. Once we identify the sales territories, once proper quotas are set,

L. F. Delventhal, Jr., manager-logistics services, uses car model for loading problem; technique can be used in shipper's office



Forty new gons for scrap service, designed by WP engineering, feature 4,800 cu. ft. capacity, extra heavy duty construction

we will have a better focus on the overall manpower needs of a given market territory. Companies don't want salesmen with too little to do. Nor should the salesman be tied down with too much office work. Salesmen must be in the field, making their calls and producing business. That is their primary objective.

One approach we have taken at the WP is the lifting, periodically, of a salesman out of the "comfort call" syndrome and making him a member of a sales sweep team in another territory. As a member of a sweep team the salesman is automatically involved in prime prospecting. He doesn't know the individual customers so he's making cold sales calls. What has this done? It has taken him out of his comfortable rut of calling on old friends and simply maintaining a relationship built up over a number of years within his territory. This is extremely important because we all need developing, and one method to develop further and enhance the value of the salesman is to make him rethink what he is doing and the techniques and tools that he utilizes.

The conclusion, based on our experience, is that railroads do have many profitable opportunities available to them. Exploiting those opportunities requires that the carriers respond along two different dimensions. The first is awareness of the scope of the opportunity, and the second is to have an organization flexible enough to dissect the problem(s) and to implement solutions. Awareness is a function of many different types of information, e.g., personal contact, a statistical data base, and an in-house information system which permits salesmen and market managers to separate the profitable traffic from the rest. Because most distribution type problems are multifaceted, the marketing managers must be able to interact with all aspects of the total company. Any barriers to this process will preclude a totally effective job. However, this type of effort strains the classical organization chart. Thus it appears to be the role of top management to provide both the tools for the marketing people to work with — e.g., needed software systems — and the environment within which to take a broad approach to problems. Finally, this is not the type of organization which can be established and forgotten. It must be continuously fine-tuned to remain effective. ■

From left, Safeway Stores' G. Pomres, S. Flegal get review of services from Merchandising Manual by W. Schmidt, sales mgr.



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