

Business

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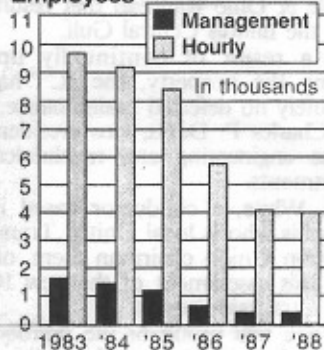


Tribune photo by Ernie Cox Jr.

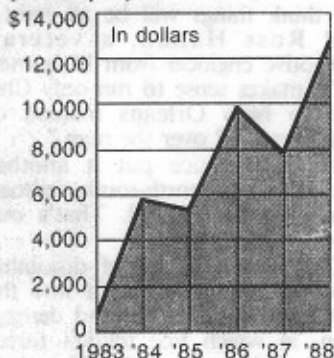
Harry J. Bruce, chairman of a reinvigorated Illinois Central, stands near a newly painted locomotive in the Markham yards.

Illinois Central Railroad

Employees



Operating income per employee



Chicago Tribune Graphic;
Source: Company reports

Restructuring leaves barely a bump along IC's mainline

By Bob Wiedrich
Chicago Tribune

NEW ORLEANS—There are only three bumps discernible along the 900-mile mainline of the restructured Illinois Central Railroad between here and Chicago.

That was all the imperfection a critical rider could detect during a trip to this port city aboard a grain train hauling Illinois corn destined for export from an elevator complex at Reserve, La.

Small wonder. Over the last decade, \$1.5 billion has been invested in rebuilding the railroad.

And in the nearly five years since Harry J. Bruce became chairman and chief executive officer of the 137-year-old carrier,

total route miles have been slashed to 2,836 from 7,086 through sales of unprofitable lines. That has fashioned a slim-hipped railroad whose operating costs are more easily controlled.

"We're hauling less and enjoying it more," Bruce declared as he reviewed his program to reshape the carrier as a productive survivor in an era of railroad industry mega-mergers.

● Sixty percent of the present railroad has been replaced with continuously welded rail to provide a smoother, less damage-prone ride for both freight and Amtrak passenger trains.

● Payrolls have been reduced from 11,521 employees in 1983 to 4,552 through voluntary se-

verance or transfer to regional railroads and shortlines created by sales of trackage. Management has been pared 85 percent; workers by almost 70 percent.

● In the same timeframe, labor costs as a percent of revenue have been scaled down to 29 percent from 40 percent.

● Productivity has been enhanced with the amount of revenue per employee increasing to \$122,913 from \$76,009 and carloads of freight per worker nearly doubling to 191 from 100. Operating income has skyrocketed from \$700 per employee to \$12,700.

Even the railroad's traditional image as the Mainline of Mid-

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America has been restored by renaming the carrier the Illinois Central Railroad, a name it had borne until a 1972 merger with the Gulf, Mobile & Ohio Railroad that resulted in the Illinois Central Gulf.

As a result of continually upgrading the property, the IC "has absolutely no deferred maintenance," said Charles P. Davis, vice president of the engineering and mechanical departments.

B.J. White, a conductor based in Memphis who is local United Transportation Union chairman there, offered this assessment of the new IC from a trackside perch:

"We're real proud of the railroad. Our track is in such good condition that it's like an interstate highway from Chicago to New Orleans."

"I think things will be all right," said Ross Hanna, a veteran locomotive engineer from Mahomet, Ill. "It makes sense to run only Chicago to New Orleans instead of being spread all over the map."

Chairman Bruce put it another way: "We're a north-south railroad in an east-west world. That's our niche."

"Ours was a bunch of disjointed activities that no longer fit into the brave new world of railroad deregulation, in which free market forces are the final judge rather than any governmental agency."

"We disposed of the marginal lines by putting together, from the appendages of the spine, free-standing companies that we could sell as off-the-shelf entities to viable buyers with proper financial backing."

"We pushed for our own market niche. We created a core railroad from Chicago to the Gulf. And we came within 100 miles of our objective."

All that remains to be done is to spin off the railroad from its holding company, IC Industries, an event awaiting a favorable finding by the Interstate Commerce Commission.

When that occurs, hopefully later this year, the railroad will once again become a freestanding, publicly traded corporation, as it was from its charter in 1851 until 1963, when IC Industries was formed to diversify the company's interests.

By next Dec. 31, the railroad's total indebtedness will have been reduced to \$607 million from the \$1.3 billion it owed in 1983, according to Richard P. Bessette, the IC's chief financial officer.

"We did that three ways," he said. "We didn't take on any new debt in the last five years. What we spent was all internally generated. We applied some of the \$478 million from line sales. And we used operating revenues to further reduce debt."

The move to restructure the Illinois Central map from a sprawling network of branch lines to a core railroad paralleling the Mississippi River through the American heartland actually started in the early 1970s, said Henry B. Borgsmiller, vice president of transportation.

In the following decade, some 2,200 miles of low-density lines were abandoned, leaving stranded shippers with a rancid taste in their mouths.

"It was a very distasteful process," Borgsmiller said. "There had to be a better way to accomplish what we were trying to do in improving the economics of the railroad."

Enter Bruce as the new CEO in 1983. Bruce, who started his railroading career as a steam locomotive fireman during college, had joined the IC in 1975 as senior vice president for marketing.

Bruce had an idea about shrinking the IC by selling off lines to entrepreneurs. They could operate them as shortlines and regional railroads with smaller train crews and more relaxed work rules than a major carrier. Since then, a similar strategy has been followed by numerous railroads nationwide.

At the time, the IC often had to operate certain switching runs with five-man crews as much as 100 miles to fetch as few as five carloads of freight from an isolated shipper at the end of a branch.

"There was no way the IC could afford to operate the lines any longer," Borgsmiller said.

Today, the railroad is more efficient and its expenses more controllable, he said. By being fed traffic by the new branchline owners, 35 to 50 percent of that revenue has been retained.

Meanwhile, 57.8 percent of all train crews have been reduced from four to three persons, under a 1980 agreement with the unions.

Gerald F. Mohan, senior marketing vice president, said carloadings have increased in part because of aggressive targeting of major chemical producers in Texas and the 90-mile long industrial corridor along the IC mainline between this southern port and Baton Rouge. The IC also has experienced a surge in grain and coal shipments this summer as a result of low water levels on the Mississippi River.

Mohan expects to record a total of about 850,000 carloads this year, a 9 percent increase over 1987 carloadings. Gross revenue, however, is expected to remain about the same, roughly \$600 million, because the average freight haul is shorter as a result of spinning off track mileage.

"I see this railroad growing," Mohan said. "In the last 15 years, the IC has averaged 10 to 15 new or expanded industries a year on its lines."

"We're not dependent on the railroad industry to bring us business. We originate or terminate about 95 percent of our traffic and over 50 percent is strictly local to our railroad."

A majority of other carriers, Mohan said, are highly dependent on interchanging traffic with other railroads.

"We don't sell speed; reliability means everything to us," said Davis, whose responsibility includes spending more than \$90 million this year on maintenance and capital investment.

"We handle the business in our traffic lane and we get there—on time."

In recent years, IC planners have devised innovative ways to stretch a dollar.

Since 1984, track inspectors have been lubricating straight track as well as curves, to achieve a 10 to 15 percent saving in diesel fuel. The railroad last year burned 57 million gallons of fuel at a cost of \$29.7 million.

At the same time, Davis said, the IC's management style has been changed from autocratic to participatory, with rank-and-file suggestions heartily welcomed.

"The switch to a participatory style is having a positive effect and improving our performance," said Tom Utroska, an assistant superintendent from Mt. Vernon, Ill. "The feedback we get from people makes them feel more involved."

"I feel good about this railroad," Chairman Bruce concluded. "I feel good about its top management team. And I feel very good about its employees."