



*Hub uses existing  
container infrastructure  
to build carload-to-  
truck business*

# Intermodal **Boxcars**

by John Gallagher

**W**hen Hub Group Inc. asked New Jersey-based wine distributor Lauber Imports Ltd. last year to consider a new intermodal service that utilizes boxcars instead of containers and trailers to move product, Lauber Imports President Mark Lauber was skeptical. "We never even tried to use rail before," Lauber said. "The people I trust to give me advice on these things said that rail service couldn't guarantee that the temperature wouldn't fluctuate. Plus, their experience with previous companies (was that) breakage was always a problem." As a company that specializes in the distribution and sale of premium wines, temperature control and breakage were its biggest concerns.

But Hub Group said it could address both and, over a year later, Lauber is satisfied. "I said at the time it was a no-lose proposition, let's give it a try and test it to see what happens. I was hoping it was going to work out as well as it eventually did, and it certainly has. We've shipped 80 cars since May 2001 and things have performed way beyond expectations."

Hub's intermodal boxcar program seems to be tailor-made for a company such as Lauber's, where damage and temperature control are among the greatest shipping concerns. In addition, "the wine industry is one which railroads have difficulty reaching directly because so much of the routing decision is made by the distributor," said Hub Group Sales and Marketing Executive Vice President Dick Rogan. "And because there are so many of them, while their individual influence may be small, collectively they represent a significant market if you can get to them and get them telling their suppliers that they want railcar rather than truck."

The program got its start in 1997 as a sort of experiment out of Hub's Boston office. "We had had a mass exodus of Fortune 500 companies (typical users of traditional intermodal transportation) in the New England marketplace at that time," said Hub Group's Director of Railcar Services Burke Anderson, who joined Hub that year from Canadian Pacific Railway. Working on the carload side at CP, Anderson approached Hub Boston with

Photo courtesy Lauber Imports

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the intent of having them sell carload services, with CP wholesaling the pricing to them.

At the same time, Rogan said, Hub Group “has always had a kind of longstanding notion that we ought to be more prominent in providing service in the boxcar side of the business, so we started talking here about starting a national initiative. And every once in a while you get lucky and get a sudden rush of good judgment, so we said maybe we ought to see how things go in Boston first and if it’s successful, make it a Hub initiative nationally.”

Two years later that’s what they did. Hub’s intermodal carload revenue increased from \$4 million in 1999 to \$9.7 million in 2000, and then jumped to \$18.9 million in 2001. During the first six months of 2002, carload revenue is up approximately 10 percent from the same period last year; Hub expects to have “double-digit growth” in the business for the year.

A key to the success of the initiative is its ability to benefit from an intermodal infrastructure already in place. “It’s analogous to building a house; you have to put in the foundation before everything else,” Anderson said. The foundation for the boxcar program is Hub’s underlying intermodal network. It has agreements in place with warehouse operators that handle transloading from railcar to truck or vice versa, and an existing network of local truckers who do pickup and delivery. Hub also has existing agreements and relationships with the railroads.

“The whole operating model is not dissimilar to what we call intermodal, the container and trailer business that we do,” Rogan said. The managing of the door-to-door service is done by nine employees under Anderson who execute the intermodal boxcar business strategy. The group utilizes a warehouse network throughout every state and every major metropolitan market. The truck and rail combination gives Hub’s carload customers access to a rail infrastructure without necessarily having a rail siding, although there are some customers with access to rail sidings on both the pickup and delivery ends who are able to use the service without the need for trucks at all.

“At least 80 percent of the business involves at least one transload,” Anderson said. “Most of our wine customers use double transloads, where we’re picking up and delivering by truck at both ends.” To prevent damage and to enhance loading and unloading, cases of wine are palletized and shrink-wrapped. “They’re so tightly packed, they don’t shift in transit as happens with trucks,” said Lauber. “It makes a big difference.” Fork lifts are driven directly on to railcars. It takes one person four hours to unload the 3,600 cases that comprise a full boxcar. “I can’t tell you the number of times we would open a truckload and the load had shifted and these guys would have to unload hundreds

of cases by hand. We don’t have that problem now,” he said.

To control temperature, disposable thermographs are installed on every car. Temperature is tracked from the time freight is loaded in California until it arrives at Lauber’s warehouse in New Jersey. “I rarely go into the warehouse anymore but I wanted to see for myself,” Lauber said. “The temperature had fluctuated only three to five degrees. That’s phenomenal.”

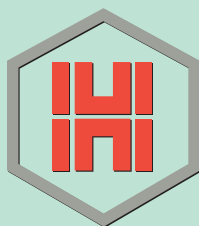
Damage control is high on the priority list for beer distributors as well. Guinness UDV, a wholly owned subsidiary of Diageo plc and shipper of Guinness beer, is a Hub customer that experiences one damaged case per 5,180 — a rate so low that it’s no longer tracked for the customer as a key performance indicator. Brewers Labatt and Moosehead, which, like Lauber, initially were dubious about the program, have begun shipping their own product in carloads. Guinness also is expanding its use of boxcars while moving aggressively in the ready-to-drink market, which includes flavored malt-based beverages such as Smirnoff Ice and Captain Morgan’s Gold.

Equipment and driver availability associated with trucks has also turned out to be an advantage of intermodal boxcars. “Some truckers would decide to park in the country and never get back on the truck,” Lauber said. And especially in the summer, when produce takes up much of the (over-the-road) reefer equipment, we could never get as many trucks as we needed.”

The disadvantage that comes with rail versus truck, however, is in transit times. “That was one part we had to take into account when we decided to sign with Hub,” Lauber pointed out. “With trucks — assuming no problems — there was a two-week turnaround, from ordering to consolidation to delivery on the East Coast. With Hub, we allow roughly three to four weeks from the time we place the order to the time it arrives at the dock.”

Because the longer transit times affected Lauber’s inventory, it affected the company’s projected sales as well. But with the ability to fit more than three truckloads onto every rail car, “we were able to cut our costs tremendously,” Lauber said. “The financial return far outweighed the additional inventory carrying costs.”

While the railroads are always wary of third parties moving in on what they consider their own domain, Hub says it’s been able to show that it can expand the railroads’ sales channels and market reach. “I think the railroads take us very seriously because they see what we’ve done in terms of putting this network in place and then using it to generate business for them,” Rogan said. “I think we’re viewed in the industry as committed to this, and I don’t think there’s anyone else in the marketplace — either railroad or third party — that has the dedicated resources or the business plan.” ●



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