Ten Rules for Negotiating Better Rail Rates

The best way to improve your contract negotiations with railroads is to better understand the market place and your opportunities to increase competition for your traffic. Here are Escalation Consultants top 10 tips on how a shipper can reduce rail expenses:

1. **Get rid of the Rail Monopoly Power Syndrome** – Shippers are frequently afraid of the consequences of cost reduction actions they can take due to railroads Monopoly Power over their traffic. You can’t reduce rates if you are worrying about what you can’t do. You are destined for failure if you don’t focus all of your attention on what you can do to improve your situation.

2. **Develop your story for why you need a better rate structure** – You know what the railroads’ story is for obtaining a higher rate structure. You need to determine what your story is for obtaining a better rate structure. Business that is being lost, business that your company can no longer go after, potential competitive options and where capital investments will be made under different freight cost scenarios are just a few issues that can be an important parts of an effective negotiation process.

3. **Know where your competitor’s facilities are located** – Your competitors can be one of your best sources of leverage in negotiations. If competitor’s plants are located closer to current and potential customers, if competitors can truck to your customers or if you could potentially perform commodity swaps with a competitor you have potential win/win opportunities to explore with your railroads.

4. **Understand your traffic lanes** – Look at the competitive rail situation at all of your shipping locations and whether alternative logistics, purchasing or production options exist. The more you know about your competitive options and production options, the better ammunition you have to negotiate lower rates.

5. **Benchmark your movements** – To get reasonable rates you first need to know what reasonable rates are. Railroads thrive on a lack of rate transparency which means it is up to the shipper to provide that transparency. If you can show railroads that their rates are putting you at a competitive disadvantage in markets you will have much better success in rail negotiations.

6. **Calculate the railroads’ cost and profit for all of your movements** – Calculating the railroads’ cost of your moves lets you understand how you can increase or decrease railroads’ profits with volumes that can be added or taken away in the negotiation. Quantifying how you can help or hurt a railroad’s profits lets you take full advantage of potential win/win opportunities.
7. **Know the pivot point for each railroad in your bid evaluation** – The pivot point represents the point where your railroad makes the maximum profit from decreasing the rates for your competitive movements. The pivot point shows when a rate reduction is no longer beneficial for the railroad as the profit it makes from additional volume is no longer large enough to offset the reduction in rates it must give to get the traffic. When a shipper does not know the pivot point when performing a bid evaluation then it is likely leaving serious money on the table in rail negotiations.

8. **Negotiate your entire rate structure and not just individual movements** – To get the biggest bang from your business, take bids from railroads on all of your traffic at one time. This makes your business more important and increases your leverage in negotiations as the railroad has more to potentially win and lose in the negotiation.

9. **Educate railroads when they are not pricing their movements properly** – Provide direction to railroads on why their overall rate structure is a problem and by how much a railroad needs to reduce rates in order to be more competitive with your captive and competitive traffic. This type of analysis can be used to show the overall rate structure needed for a railroad to maintain and increase volumes.

10. **Network, Network, Network** – Learn as much as you can about the railroads you are using. Listen to railroads’ quarterly conference calls with Wall Street, attend railroad conferences, visit the Surface Transportation Board which regulates the railroads, become a part of an industry trade group like the National Industrial Transportation League, or CURE. In addition, get to know the key players at the railroads you seek to negotiate with BEFORE you sit down for the negotiation.

*This is just a small sample of the type of issues that will be discussed at Escalation Consultants’ next Rail Negotiation seminar in Washington, DC, on October 15th – 16th. For more information, contact Escalation Consultants at 301-977-7459 or go to EscalationConsultants.com.*

*Note - Ways to increase your competitive traffic has been a major focus at the seminar and continues to be highly rated by participants.*