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MARKET WATCH

Intermodal Transportation: A Key Strategy for Reducing Your Company's Carbon Footprint

Authored by PLG Consulting

For over 20 years, PLG Consulting has been helping major shippers improve their operational efficiency and lower total delivered costs while improving competitiveness. This report is a collaboration with our network's most senior intermodal experts.

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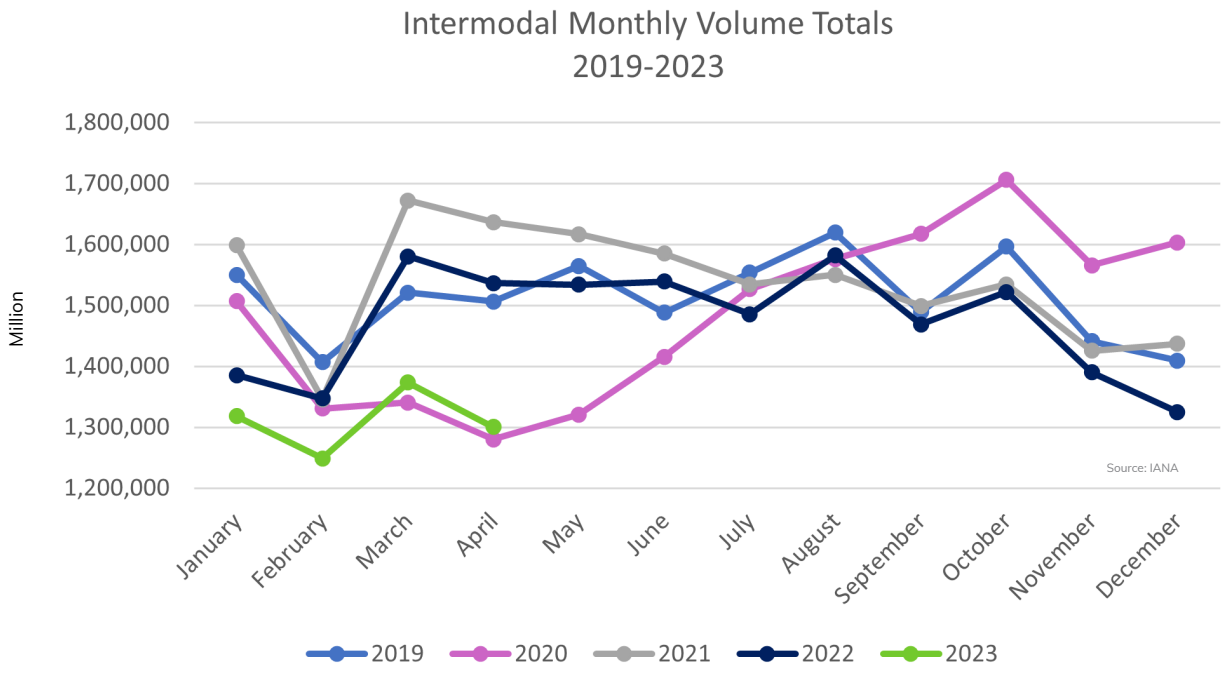
INTERMODAL TRANSPORTATION - A Key Strategy for Reducing Your Company's Carbon Footprint

Now considered the growth vehicle for the rail industry, intermodal volume in 2023 has been disappointing. Inventory declines, inflationary pressures, and ongoing economic uncertainty have impacted year-over-year intermodal volume levels. This year, the market climate is more difficult as uncertainties such as inflation and a potential recession confront consumers.

With truckload rates nearing the floor, intermodal pricing has also been declining. Pricing is expected to remain under pressure at least until this year's peak season, if not longer. It is certainly a shipper's market as seen through the key variables that drive intermodal price levels: Capacity, demand, service, trucking outlook, and the strength of imports.

2023 INTERMODAL VOLUME TOTALS ARE DISAPPOINTING



30% REDUCTION OF CO_2 EMISSIONS PER SHIPMENT WHEN CONVERTING FROM TRUCKLOAD TO INTERMODAL TRANSPORTATION

Shippers can leverage these current market dynamics to optimize and grow their use of intermodal transportation. For customers looking for sustainable transportation options, intermodal is one of the most environmentally-friendly options available. Each intermodal double-stacked train can remove up to 300 trucks off the highway. On average, when truckload business is converted to intermodal it reduces CO_2 emissions by over 30%; transcontinental freight (over 1,000 miles) would see an even greater reduction in greenhouse gas emissions.

SOURCES: IANA; PLG Consulting Analysis, June 2023

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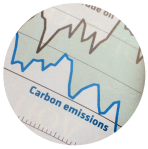
HOW TO LEVERAGE INTERMODAL FOR ESG INITIATIVES

Green transportation is becoming increasingly popular among shippers and there are several key reasons why intermodal should be part of any shipper's transportation portfolio if they are serious about reducing their carbon footprint.

As shippers set Scope 1, Scope 2, and Scope 3 targets, it makes sense to focus on intermodal as one viable way to reduce their carbon emissions. It is estimated that over 30% - 70% of a shipper's Scope 3 emissions are from purchased transportation services. As companies consider intermodal as a way to reduce carbon emissions, here are some key considerations:

PICK YOUR 'MIDDLE-MAN' WISELY

The U.S. intermodal network largely follows a wholesale model, which means that the railroads have the relationship (set the pricing, hold the contracts) with the intermediaries (trucking companies, 3PLs, IMCs). The 'middle-man' should be picked wisely. It is also important that intermediaries have the ability to help navigate Class I railroads since they take ownership of the entire move.



ACCESS TO BUSINESS-SPECIFIC SCOPE 3 DATA

When shippers use intermodal, they need to understand the role that each partner plays in Scope 3 data and information sharing. Getting accurate emissions data for specific carrier networks is challenging. The best practice for eliminating tenuous manual data aggregation would be to identify existing partners who have some capability to share emissions data that is specific to your business. Even if you have to start small or with general assumptions, build a strategic plan to collaboratively work together. You measure what you care about; and for Scope 3, while overwhelming, you have to start somewhere.

SEC REQUIREMENTS FOR FUTURE SCOPE 3 DATA REPORTING

With SEC requirements for reporting Scope 3 likely to be implemented in the future, it is important to start now since most railroads and intermediaries don't have customer-specific reporting today. Starting to have conversations immediately will help to strengthen the data received for reporting needs. Reviewing the frequency of the data and the break out of intermodal vs. truck (or additional modes) is essential. Simple methods for taking more control of these indirect emissions start with asking the right questions and finding the right people in each transportation company's organization. More than likely, it will require working with additional people/departments beyond just the salesperson. It is also helpful to involve internal sustainability groups as shippers consider areas to pilot or test (both by using intermodal and receiving information).

SOURCE: PLG Consulting Analysis, June 2023

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INTERMODAL AS PART OF YOUR PORTFOLIO

With the truckload rate outlook trending soft for the remainder of 2023, it has been hard to justify intermodal versus the more dependable service product that trucking offers. Trucking is also much less complicated, with fewer partners involved.

With that said, shippers should stay relevant and find ways to use intermodal even during a slower freight market. Two primary reasons include: 1) shippers can actively start to reduce their carbon footprint now vs. waiting for infrastructure and technology to become more scalable (i.e., alternative vehicles, alternative fuels used in trucks), and 2) Because intermodal is complex (more parties involved), easing into its use and identifying freight that fits the intermodal network best (acceptable service product, most consistent service lanes, less time-sensitive freight) is recommended. Even if shippers have solid relationships with their key trucking providers, it makes sense to start evaluating intermodal as part of a balanced portfolio of transportation options. For shippers new to intermodal, here are some actionable next steps to get the gears in motion:

1. To ease into intermodal and gain sustainability benefits, each of the Class I railroads has franchise lanes or lanes where they offer the most reliable service product. It is important to start where each railroad is at its best. Shippers should offer consistent volume if possible and ask for rate levels necessary to make a commitment.
2. Service providers likely won't proactively offer metrics and reporting capabilities; this will be something shippers must ask for. Key metrics to evaluate both the intermodal service experience as well as the carbon emissions reduction impact should be carefully considered.
3. Generally, most intermodal carriers tout that they offer truck-like service, but it is generally better to focus on lanes that are over 500 miles. Longer intermodal hauls will improve the carbon footprint.
4. The three Class I railroads that are intensely focused on growing their Mexico business (BNSF, UP, CPKC) are open for business in the north-south lane. Another smart approach to testing the intermodal waters is to offer business for which railroads are actively competing. The timing is right for shippers if they have freight to or from Mexico, and this will likely result in competitive rate packages.

Ultimately, rail and intermodal present unique and complex challenges that PLG Consulting is well-positioned to help shippers navigate. The wholesale intermodal network has nuances that PLG can help direct shippers around to enable advantaged logistics. PLG provides shippers the expertise and implementation support to develop intermodal networks that both lower costs as well as help achieve emissions goals. Intermodal is a viable option that isn't waiting for scalability or infrastructure readiness.

PLG Consulting is the go-to expert resource for these intermodal services:

- Assessment & Optimization
- Business Strategy
- Market Analysis
- Due Diligence
- Logistics Procurement

In summary, with a soft market, now is the time for shippers to seek options that include intermodal as a key part of a balanced transportation strategy. Reach out today so we can help you take advantage of this sustainable mode for more of your volume!

Let's start the conversation

SOURCE: PLG Consulting Analysis, June 2023