



Two Santa Fe trains with a variety of power meet in Arizona's Crozier Canyon. Tom Danneman



The **SMARTEST, LUCKIEST** railroad in America

SHIFTING THE PARADIGM — SANTA FE STYLE // STORY BY JIM GIBLIN



Quantum promotional videotape likened the competition to the Cold War. According to the Quantum narrative, “Until recently, trains have gone one way and trucks have gone another. And if they never crossed paths, that would suit both of them just fine.”

But not Santa Fe. In 1989, Santa Fe, under Michael Haverty’s visionary leadership, decided to co-opt the traditional commercial relationship and produce something entirely new. Instead of “win-lose,” it became “win-win.” This was the epitome of one of the railroad’s longest-running marketing slogans, which read, “Santa Fe — Always on the Move Toward a Better Way.”

In 1981, the Interstate Commerce Commission used its new authority provided under the Staggers Rail Act of 1980 to exempt domestic intermodal traffic from price and rate regulation.

On Sept. 21, 1991, locomotive No. 553 is heading up a company special eastbound through the remote Missouri town of Ethel. David P. Oroszi

In this rail industry insider’s opinion, the modern history of the Atchison, Topeka & Santa Fe Railway represents a truly fortuitous combination of factors and circumstances virtually unmatched in modern railroad history.

Between 1988 and 1992, Santa Fe was blessed with three extraordinary commercial encounters. First was formation of the legendary joint venture with trucker J.B. Hunt Transport Services (branded as Quantum). Second was expansion of Santa Fe’s existing relationship with United Parcel Service, culminating in the building of the Willow Springs (Ill.) multimodal complex outside Chicago; UPS became, briefly, Santa Fe’s biggest customer and burnished the railroad’s reputation for running fast, reliable trains. And third was the establishment of the intermodal logistics park in North Texas (now known as Alliance) with Hillwood Development Company, a Ross Perot company. Alliance became the prototype of the logistics park concept that Santa Fe successor BNSF has since taken to Chicago; Kansas City; Stockton, Calif.; and soon, Barstow, Calif.

Being smart is good. So is being lucky. Santa Fe’s management was smart enough and lucky enough to produce the most

significant paradigm shift in modern railroad history, seemingly moving it from worst to first in the industry.

Paradigm shifts almost always involve risk. The greater the shift, the greater the risk. In Santa Fe’s case, the stakes were enormous. But in the end, so were the rewards. J.B. Hunt as a standalone railroad customer would ultimately replace UPS as Santa Fe’s (and BNSF Railway’s) single largest customer. According to published reports in the Journal of Commerce, J.B. Hunt is now the single largest intermodal marketing company in North America, with more than 100,000 53-foot containers in service. (This figure represents a significant equipment investment Santa Fe and BNSF have not had to make.) In 2020, J.B. Hunt Intermodal grossed almost



Santa Fe’s headquarters on Michigan Avenue. David P. Oroszi

represented more than half of J.B. Hunt’s operating income by business unit.

BUCKING CONVENTIONAL WISDOM

Here are some insights, observations and commentary about what happened, how it happened, and why. Conventional wisdom in the railroad business once held that truckers and railroaders were competitors, not partners. The original 1990



Deregulation of international intermodal traffic would come in 1984.

Utilizing its new regulatory freedom, most of the rail industry began experimenting with ways to attract new intermodal customers and improve chronic profitability issues with the existing business. Each railroad took a different approach in the name of trying something new. American President Line (APL) vs. Sea-Land was an interesting contrast in styles (and outcomes) between steamship companies. Both carriers had their own domestic containers as well as intermodal double-stack cars. But they still needed willing rail partners.

Union Pacific (along with partner Chicago & North Western) outsourced its domestic intermodal business to APL with a 10-year agreement in the mid-1980s. It was the brainchild of Don Orris, APL's marketing chief. As described in David J.

DeBoer's book *Piggyback and Containers*, this occurred after Orris was rebuffed by Santa Fe — not so bright on Santa Fe's part then. But later, its obstinance made so much more possible.

CSX Transportation went a different direction under the leadership of CEO Hays Watkins, acquiring Sea-Land in 1986. By 1991, CSX Intermodal was selling a nationwide intermodal service network that included service to southern California via Southern Pacific.

Several railroads tried the retail approach, keeping everything in-house. Burlington Northern went all-in on domestic retail with BN America. Norfolk Southern was the only railroad to seriously commit to RoadRailers with its retail door-to-door Triple Crown Service.

The Motor Carrier Deregulation Act of 1980 was enacted at about the same time as Staggers. Truckers also entered their

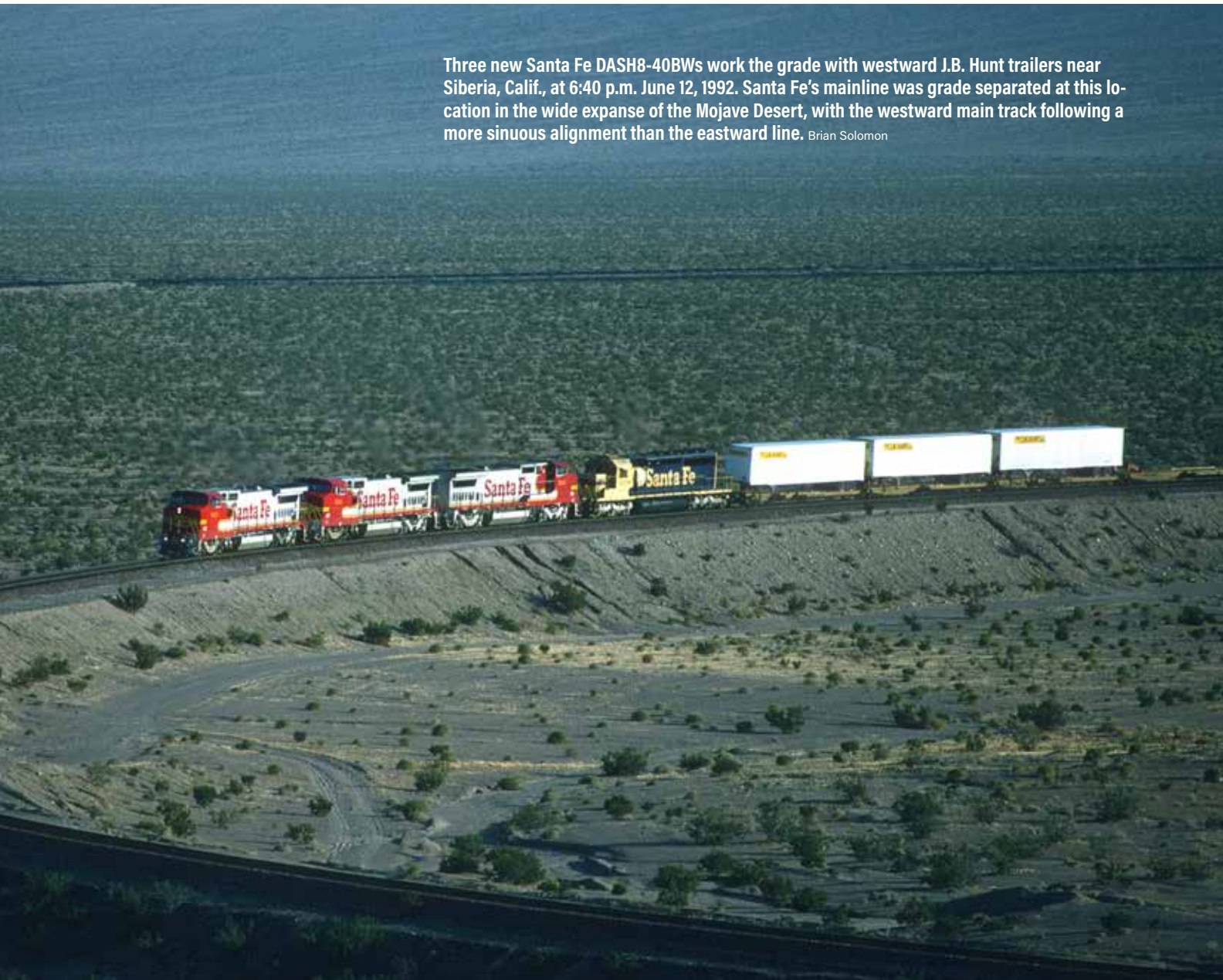
brave new world of deregulation, some coping better than others. An early casualty became Santa Fe Trail Transportation, a Santa Fe highway subsidiary dating to 1939; it shut down in 1984. One of the strongest and smartest survivors under deregulation, however, was a shrewd trucker from Lowell, Ark.

BREAKING OUT OF THE DOLDRUMS

Where was Santa Fe during this era of rapid change and innovation? Literally and figuratively frozen in time and place since it began the merger process with Southern Pacific in March 1984. Don McInnes, assistant to the vice president of operations during the 1980s, said it best: "We came to a standstill."

Yet the intellectual foundation for the upcoming multimodal transportation revolution had already been created at the

Three new Santa Fe DASH8-40BWs work the grade with westward J.B. Hunt trailers near Siberia, Calif., at 6:40 p.m. June 12, 1992. Santa Fe's mainline was grade separated at this location in the wide expanse of the Mojave Desert, with the westward main track following a more sinuous alignment than the eastward line. Brian Solomon





In June 1993, Willow Springs Yard was still being laid out along the Chillicothe Subdivision as westbound train V-CHLA2-21 heads toward California on June 21, 1993. Two photos, Mike Abalos

University of Chicago's Booth School of Business, by Haverty himself, when he was a part-time MBA student in the Class of 1982. Conceptually, Haverty believed there should be "an alliance between a trucking company and a railroad."

As described by Keith L. Bryant Jr. and Fred W. Frailey in *History of the Atchison, Topeka and Santa Fe Railway*, a marketing course at Booth allowed Haverty to expound on his concept in a thesis on the "desirability of partnerships between railroads and truckers, combining the low-cost over-the road capabilities of railroads with the sales and pick-up deliveries capabilities of truckers." When Haverty became Santa Fe's president in 1989, this paper was his manifesto for revolutionary change. And one of the first things he did was make what many in the railroad industry considered a deal with the devil: He invited trucker Johnnie Bryan Hunt on a train ride.

Dumb luck played a part in this. As recounted in Bryant's and Frailey's book, John Russell — the lead McKinsey & Company consultant working for Santa Fe at the time — knew Hunt and volunteered to make the introductions and help get him on the train.

The train selected for the November 1989 demonstration run was Q-NYLA, the fastest freight on the railroad and a direct descendant of the Super C, which set speed records during its eight-year tenure between Chicago and Los Angeles. Four

FP45 locomotives, freshly washed and wearing the new Warbonnet paint scheme, pulled the train. These locomotives had initially been purchased by Santa Fe 22 years earlier as replacement power for the *Super Chief-El Capitan*. In 1989, they still made good motive power for high-speed intermodal trains.

After departing Chicago, as the westbound train rolled through Galesburg, Ill., Hunt leaned over and said, "Haverty, I think we've got ourselves a deal." And the rest is history. But at the time, as Haverty later recalled, "Neither one of us knew what the deal was."

PERFECTING THE DEAL

Several strategic factors were already at work. First, in an Intermodal Founders Oral History Program interview videotaped at the University of Denver in 1999, Haverty said Santa Fe wanted to create a retail door-to-door intermodal program. However, he also said he did not want to get into the trucking business.

Santa Fe's existing wholesale marketing program, in which it merely hauled trailers that trucking customers collected, was inherently awkward, was cumbersome to manage, and suffered from a lack of quality control. A full-fledged door-to-door joint venture with a leading truckload carrier like J.B. Hunt gave Haverty precisely what he wanted and needed.

Second, it turned out that both Santa Fe and Hunt wanted to go beyond the



traditional commercial relationship and form a true partnership. While many railroads had made sales calls on Hunt, Santa Fe's Haverty was the first and only railroader to suggest such a partnership. That sealed the deal for Hunt. The association gave Hunt and Santa Fe equal amounts of skin in the game. Santa Fe would provide the premium train service, and J.B. Hunt Transport would provide everything else, including the customer interface. Both companies would contribute information technology assets and staff.

Finally, according to former Santa Fe CEO Robert Krebs in his 2018 autobiography *Riding the Rails*, "Hunt himself was a marketing genius. The world was waiting for good, reliable transportation service at a price less than you had to pay for a single driver to take a trailer across the United States."

An aside: J.B. Hunt was not only a first-class trucker, but also someone who

knew something about railroads, as revealed in that University of Denver interview. He said Haverty "knew how to keep the track up and move the freight. That's about three-fourths of the act. Now you've got to get it picked up and delivered; that's 99% of the act. But if you don't have the track, you ain't going to get much service."

One should not overlook the personal rapport between the two leaders. They were embarking on a journey into uncharted waters. Both were products of small towns about 400 miles apart. Haverty grew up in Atchison, Kan., and Hunt in Heber Springs, a small town in north central Arkansas.

For some in the intermodal business, especially at Santa Fe, this new deal was déjà vu all over again. As described by DeBoer, in the early '80s, APL's Orris proposed a rate-sharing agreement with Santa Fe that looked much like what J.B. Hunt and Santa Fe agreed upon years

later. "APL will take the risk on the equipment," DeBoer quotes Orris as saying, "but Santa Fe needs to reflect a part of the cost savings in the rate." Santa Fe's traffic VP at the time, Jim Wright, told Orris, "Sorry... I just couldn't do that. Our other third parties wouldn't hold still for that."

Orris replied, "Your other third parties don't supply Santa Fe with equipment. We'll bring both the boxes and the cars, and we'll bring you totally new traffic." Wright didn't believe Union Pacific would do the deal and told Orris so. But he was mistaken.

ECHOES OF SUPER C

A similar fear of commercial blowback from various existing third-party customers, like shipper agents and freight forwarders, had contributed in 1967 to the failure to launch a Santa Fe-New York Central super-fast, premium-priced train between New York City and Los Angeles.

Santa Fe's hot 891 train has just landed on track 1712 at the east end of Willow Springs Yard on May 22, 1995. The power will be cut off and continue east to Corwith, where it will be serviced. The sprawling building in the background is UPS's Chicago Area Consolidation Hub.





Intermodal train SFRCH (Richmond, Calif., to Chicago) is eastbound at Flagstaff, Ariz., on Sept. 28, 1995. The Flagstaff depot is a popular Amtrak stop for people wanting to visit the Grand Canyon and other tourist spots in the area. David P. Oroszi

When NYC backed off, Santa Fe went ahead and the following January created its half of the service anyway, calling it Super C.

In August 1987, the transcontinental train concept was resurrected in a much different environment as the Q-NYLA and Q-LANY. This time, the eastern partner became a railroad success story named Conrail, operating its own new high-horsepower locomotives over main-line tracks equal in quality to those of Santa Fe. The Q trains ran between the New York metro area and Los Angeles in 76 hours. It was an idea whose time had finally arrived.

Santa Fe's new Intermodal Business Unit (IBU), created in 1989, was now responsible for everything intermodal, including profit and loss. It was led not by another hidebound Traffic Department executive (dragging tons of institutional baggage with him) but by a former operating department executive and Haverty colleague, Don McInnes.

This time, things were going to be dramatically different. Speaking to the Intermodal Marketing Association in February 1990, as the new vice president-intermodal, McInnes spelled out the game's new rules: "Santa Fe is going to cease being a price taker. Santa Fe will cease being leveraged on price with, I'll

take my freight elsewhere.' If you are an intermodal retailer and you deal with railroads in this fashion, you won't be dealing with Santa Fe much longer."

Then, in a 1990 *Progressive Railroading* article, McInnes described Santa Fe's premium marketing strategy this way: "We market our premium service something like the way the railway did our famous *Super Chief* passenger train. If you wanted to ride the *Super Chief*, you were required to pay an extra fare. We feel strongly that there is a growing niche for this type of intermodal service."

It was in this evolving environment that the new Santa Fe-J.B. Hunt joint venture emerged as Quantum. I still have my Quantum coffee mug and Lionel O-gauge Santa Fe Quantum tractor and trailer. The logo on the backside of the coffee mug is an inverted triangle with the words "Break Tradition."

TAKING THE ADVANTAGE

The Quantum partnership gave Santa Fe several important advantages that few people fully understood. It gained instant access to a vast nationwide customer base. The trucking industry handles more than 70% of all domestic intercity freight tonnage shipped. Yet 99% of motor carriers operate 100 or fewer trucks. J.B. Hunt Transport was and remains, by revenue,

one of the five largest for-hire truckload carriers in America. (It now operates the largest refrigerated intermodal container fleet in the industry.)

Second, Hunt agreed to supply the bulk of its own intermodal trailers and containers; this was comparable to Union Pacific's deal with American President, wherein APL provided both containers and railcars. This was another lucky windfall for Santa Fe because it eliminated an enormous capital investment.

Finally, as an interstate trucker par excellence, J.B. Hunt already possessed the ability to successfully (and profitably) manage what is known as the "first-mile, last-mile" segments of the move. It had the dispatching and information-technology infrastructure to manage drayage nationwide far better than other intermodal drayage carriers.

The partners' robust existing framework of over-the-road business would allow them to internally cross-subsidize highway and intermodal operations, keeping empty miles and costs to a minimum. The icing on the cake was placing a Santa Fe customer service manager on-site at J.B. Hunt's corporate offices in Lowell.

This new multimodal concept was pure genius and now seems painfully obvious to just about everyone in the business. But someone had to possess the courage and foresight 30 years ago to take the risk and the first steps. That's called

leadership. In his 1996 *Trains* article “The Santa Fe Mystique,” author William Benning Stewart described Santa Fe’s competitive advantage as “the happy combination of analytical left brain thinking with right brain creativity.” By the end of 1989, Mike Haverty had become the living embodiment of that “distinctive advantage,” as exemplified by two concurrent actions.

In late 1989, Haverty was finalizing the details of the deal with J.B. Hunt Transport (heavy duty left brain thinking). This action would go on to “please the shareholders” beyond belief within five years, helping to make Santa Fe one of the most valuable franchises in North American railroading. At the same time, Haverty resurrected the famous Warbonnet locomotive paint scheme (heavy-duty right-brain creativity) as the key feature of the new Santa Fe brand image, an action that would “please the soul of the romantic.” Haverty personally selected and approved the new paint scheme shortly.

The book *Warbonnets: From Super Chief to Super Fleet* by Dan Pope and Mark Lynn includes a fascinating letter from Haverty himself providing his recollections of “how it all took place.” It is an interesting story for most railfans and an integral part of the book, but his assess-

ment of the real-world impact is the most important part.

Santa Fe “received millions of dollars in free advertising as it again became the most recognized paint scheme in the world,” Haverty wrote. “It became one of the biggest marketing coups in recent history. It put Santa Fe back in the news, and more importantly, helped the company regain its image as a quality carrier.”

GP60Ms delivered from EMD in May 1990 would be the first of a long parade of Santa Fe locomotives wearing the latest version of the Warbonnet paint scheme.

TAPPING INTO A LEGEND

What was it in Santa Fe’s DNA that made all this possible? Was it pure luck or something else?

First, the collective memory of Santa Fe’s past glory days was alive and well. In 1989, most of the senior management were still career Santa Fe employees. They represented an extraordinary brain trust of experienced railroaders proud of the Santa Fe legacy and eager to help the railroad regain its leadership position. They were, as a group, intimately familiar with the concepts of quality and speed, as represented by premier trains such as the *Super Chief* and *Super C*.

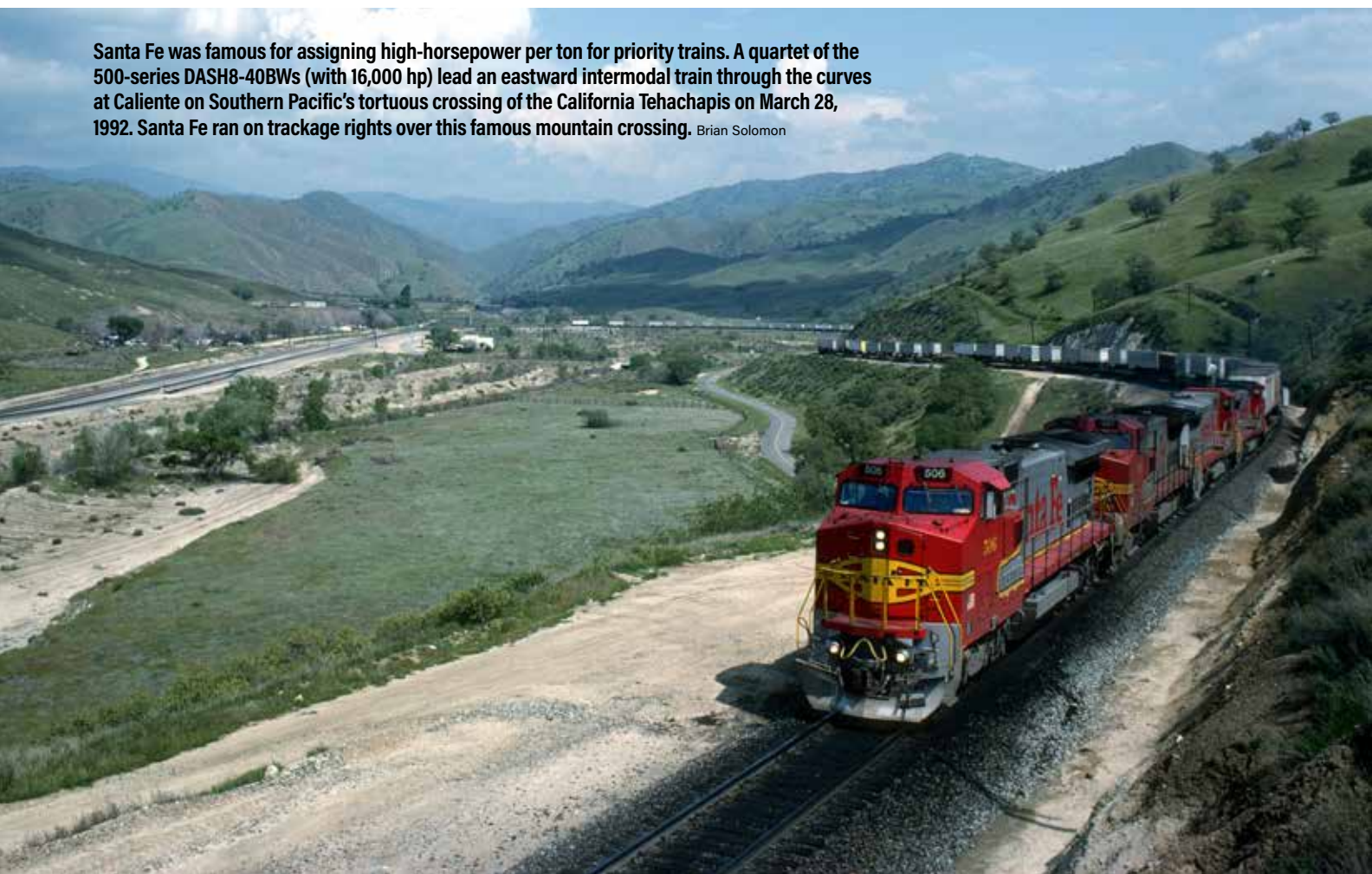
One of the early IBU-managed promotional campaigns included a full-color print ad that proclaimed, “If it’s Super, it has to be Santa Fe.” The 1989 Santa Fe promotional video “Smooth Journey” proudly proclaimed, “From the *Super Chief* of 1939 to the Super Fleet of today, we’ve set the track record in transportation.” It reminded viewers, “The values and principles that guided the *Super Chief* guide the Super Fleet of today.”

Probably nothing epitomizes Santa Fe’s corporate esprit de corps in its final years more than the book *Warbonnets* by Pope and Lynn, in which they write, “The powerful imagery and the superior service of Santa Fe’s premier passenger train would become synonymous with the railroad itself. The mystique that was created still lingers today. If image is everything, then the Santa Fe has it all.”

After the Santa Fe-Southern Pacific merger was quashed by the ICC in 1986, the Santa Fe team knew what to do. They just needed new direction and fresh leadership, which they got from Krebs, who became the railroad’s chief executive in 1987.

Many at Santa Fe didn’t realize they likely were living on borrowed time. In 1988, one of the Santa Fe’s largest

Santa Fe was famous for assigning high-horsepower per ton for priority trains. A quartet of the 500-series DASH8-40BWs (with 16,000 hp) lead an eastward intermodal train through the curves at Caliente on Southern Pacific’s tortuous crossing of the California Tehachapis on March 28, 1992. Santa Fe ran on trackage rights over this famous mountain crossing. Brian Solomon





Train 199 blasts up Edelstein Hill west of Chillicothe, Ill., on Sept. 3, 1995. Edelstein Hill is a 6-mile grade that brings trains west out of the Illinois River valley. David P. Oroszi

shareholders, the real estate company Olympia & York Development and its McKinsey & Company consultants, believed the railroad to be the least desirable part of the proposed SPSF holding company. When O&Y director Paul Reichmann brought before the board the idea of selling the Santa Fe, Krebs proposed instead that McKinsey be employed by the railroad to take a second look at the company. McKinsey ultimately agreed that the railroad had the most upside potential of all SPSF companies. Krebs went on to lead one of the most spectacular turnarounds in modern railroad history.

Next, in 1988, came an intense internal analysis and review of possible options and outcomes, led by Krebs and facilitated by McKinsey. The result of that process would be a laser-like focus on providing the highest quality rail intermodal service in North America at the lowest possible cost.

Also in its DNA, Santa Fe had a corporate commitment to intermodal unique in the rail industry. In 1989, most U.S. railroads treated their intermodal business like an unwanted stepchild. But not Santa Fe. Writing in his *Santa Fe 1992 Annual*, author Kevin EuDaly said “There is no doubt that Santa Fe and intermodal are synonymous. In fact, if there were a definition in the dictionary for intermodal, it would surely use Atchison, Topeka & Santa Fe Railway as a primary example.”

In 1988, Santa Fe ranked second in intermodal volume behind Conrail. However, the comparative relationship here is not as obvious as it looks. The difference was that Conrail had a near-monopoly in the Northeast, which the Federal Railroad Administration had identified as the densest long-haul intermodal freight market in the U.S. Conrail spread this volume over two legacy routes between the New York City area and Chicago. By contrast, most of Santa Fe’s intermodal volume still came from its primary route, Chicago to California.

A RAILROAD WITHIN A RAILROAD

Also pursuant to its DNA, one of the first things Santa Fe did — based on advice from McKinsey — was to establish an Intermodal Business Unit, described as “a railroad within a railroad.” This fundamental structural change made the laser-like focus possible. The IBU’s mandate was to sort out Santa Fe’s legacy hodgepodge of intermodal business and make intermodal solidly profitable.

Management added a few twists of its own. The IBU would control both marketing (sales, pricing) and operations (terminals, equipment) — no more traditional railroad managing in stovepipes. Success would require the IBU to control all the levers and have P&L responsibility.

To maximize the possibility for success, Haverty turned to a trusted operat-

ing department colleague, Don McInnes, to run the new business unit. During his tenure as vice president of operations, Santa Fe’s own Traffic Department had been Haverty’s biggest obstacle to going forward with his trucking partnership idea. By 1989, the Traffic Department had already trashed this idea once. But as president, Haverty no longer needed to worry about getting “permission” from narrow-minded prophets of doom in his own organization.

Santa Fe’s modern legacy of high-speed freight trains also was deep in its DNA. One of the few metrics available for a comprehensive analysis of freight train speeds was Donald M. Steffee’s Annual Speed Survey, published in *Trains*. Unfortunately, the Speed Survey was phased out in the early ’70s. The survey included all fast freight trains in North America with runs (or segments) timed at 55 mph or better.

One of the last good examples was the 1969 survey, published in the September 1970 *Trains*. Steffee made this fascinating observation: “So fine is Santa Fe’s freight performance with other hotshots as well as with *Super C*, that we have had to restrict its representation to 60 mph.”

For the total freight train scorecard, Santa Fe had 17 runs operating 60 mph or greater and 32 runs operating 55 mph or greater. Steffee’s 1969 survey identified 105 freight runs nationwide at 55 mph or greater, and 46% of these trains operated over Santa Fe.

By 1990, Santa Fe's two fastest intermodal trains were the Chicago to Richmond (Oakland) No. 199 and its eastbound counterpart No. 991. Both operated on the southern Transcon route via Amarillo, Texas. Train No. 199 was allowed 51 hours, 45 minutes to cover the 2,505 miles, an average speed of 48.4 mph. In August 1970, the *San Francisco Chief* passenger train was allowed 50 hours to cover 2,537 miles from Dearborn Street Station to Richmond via Topeka, Kan. Eastbound 991 was slightly slower, with a scheduled running time of 55 hours, to cover the same 2,505 miles. Trains 198 and 891 operated on a 49-hour schedule between Chicago and Los Angeles (45.3 mph average speed).

In the two decades after 1969, train speed would become critically important. According to data collected by the FRA National Intermodal Network Feasibility Study, the average highway speed for trucks had increased from 43 mph in 1950 to almost 57 mph in 1972. Begun in 1956, the original Interstate Highway System was proclaimed complete in 1992. In 1995 Congress repealed the mandatory 55 mph limit in its entirety.

The Interstates allowed truckers to drive faster and farther. Haverty encountered this phenomenon during his first transcontinental business car trip after he became president in June 1989. "We're zipping across out there adjacent to Interstate 40 in New Mexico," he's quoted as saying in the book *The Illinois Division of Santa Fe Railway*, by James A. Brown. "It was unbelievable how many trucks were out there. Actually, at the time, the 55-mph speed limit was in effect. They weren't running 55, but they were supposed to be 55 mph. Here we are out there going 70 mph, and we're like 40 yards away from the interstate."

The Federal Highway Administration had identified Interstate 40 as one of the five busiest for truck traffic in the U.S. and the third most active in the West. It remains a critical link in the collection of four Interstate highway segments that collectively replaced Route 66 as the primary Chicago-to-Los Angeles highway route.

ONE MORE ACE

Finally, Santa Fe had one more ace up its sleeve: its special relationship with long-time customer United Parcel Service.

Frailey's and Bryant's book observes that UPS "became what passenger trains once were: an enforcer of operational discipline." UPS paid a premium price but demanded — and got — consistently reliable service from the railroad.

The final word here belongs to Robert D. Krebs. In December 2000, Burlington Northern Santa Fe and Canadian National filed a merger application with the Surface Transportation Board. "I still wonder what Hunter Harrison would have done with (or to) BNSF," Krebs wrote in *Riding the Rails*. "Early in 2000, we invited Hunter to accompany our operating people on a trip from Chicago to Los Angeles. One suggestion he made then was to slow our intermodal trains down to 50 mph. We prided ourselves on our 70 mph intermodal trains, which we thought were important in providing service competitive with trucks. The Surface Transportation Board made such worries moot." ■

JIM GIBLIN was hired to the Santa Fe by Don McInnes in 1989. He wishes to dedicate this article to his father, John J. Giblin — a decent man who made all things possible for his son.

In June 1992, Santa Fe GE DASH8-40BWs cross a barren landscape of sage and sand with a mile of trailers in tow. This westward freight is near the remote location of Siberia, on the ascent of Ash Hill in California's Mojave desert. Brian Solomon

