POLICY PERSPECTIVE

UNDERDOG RAILROADING: THE POSNER PRINCIPLE

By Frank N. Wilner

Had Henry Posner III not chosen a life of railroads, he might be modeling Brooks Brothers suits in Gentleman's Quarterly. With the bearing of a military academy graduate, the wiry body of a major league shortstop, and the tonsorial perfection of Cary Grant, Posner is an entrepreneur who just happens to prefer buying and improving railroads in the most improbable places.

Look his way—as almost everyone in a room eventually does—and he'll likely approach you, announcing, "My name is Henry Posner. I'm chairman of Railroad Development Corporation of Pittsburgh and I'd like to talk to you about alternative models for rail freight privatization."

Okay, he has a flaw. A one track—pardon the pun—mind. Railroads. More specifically, railroad garage sales. Iowa, Central America, South America, Europe—it doesn't matter. If there are two strips of high iron for sale, Posner finds his way there to haggle for possession as deftly as a Marrakech native at the bazaar.

What the belly-up Rock Island couldn't sustain between Chicago and Omaha, Posner does. What the governments of Guatemala and Argentina failed at doing, Posner excels.

Posner must be considered eccentric among his risk-averse former Princeton classmates who chose more sedate careers at Chase Manhattan, Morgan Stanley, and IBM. "One of the more subversive activities I participated in at Princeton," says Posner, "was being Amtrak's campus representative." After graduation he obtained what he says was "the best job on the Conrail system, which was daylight trainmaster at Oak Point Yard in the South Bronx. I am still known at Conrail as the only person ever to volunteer to go to work at Oak Point." Even stouthearted cops don't volunteer for the South Bronx.

While his former Princeton classmates sipped evening martinis and golfed on weekends, Posner studied the practical science of efficient train operations under Conrail's legendary operating chief Dick Hasselman. When he transferred to the Philadelphia marketing department, his tutor in applied railroad economics was the incomparably talented Charlie Marshall. Then out from the secure Conrail nest he flew, focused on underperforming and undervalued carriers desperate for capital, understanding, and leadership.

He was involved briefly with the Pittsburgh & Lake Erie—insisting that organized labor was not the carrier's handicap as others insisted—and later acquired the Iowa Interstate, became a partner in the privatization of Buenos Aires al Pacifico (Buenos Aires to Chile) and Mesopotamico Railway (Buenos Aires to Brazil, Paraguay, and Uruguay). More finicky than a cat inspecting dinner, Posner walks from most deals—especially those in the U.S.

"The easiest way to go under in this business," he says, "is to be convinced that all you have to do is be innovative, aggressive, market driven, and have a great paint scheme on your locomotives. We have survived because we have been enthusiastic, but disciplined.

"Bankruptcies occur usually due to revenue shortfalls, not cost overruns. Over-optimistic bids driven by the auction process," he says, "create financial cripples when you pay too much for a business."

The U.S. experience, says Posner, is of buyers paying too much at line-sale auctions conducted by Class I railroads. "When you are the buyer, your competition is not trucks, it's other bidders." He also observes from experience that commitments made by Class I railroads to assist short line partners "never quite get translated by the operating department." The Surface Transportation Board agrees, last month having ordered big railroads to commence a formal dialogue with short lines on this subject.

"So why would a rational businessperson go to less developed nations where freight rail has zero market share, where most of the locomotives are out of service and the track is in bad condition?" he asks rhetorically.

"In Latin America," says Posner, "revenue opportunities are quite favorable for railways. With low market share they have no place to go but up. And a lot of the Latin American economies have been suppressed over the years, but are now expanding."

He acknowledges lots of cost problems in Central and South America, but insists he'd "rather have a cost problem than a revenue problem because experience in the U.S. has proven that we as railway managers can control costs. What we can't do is put a steel mill at the end of every branch line or prevent a Class I from cannibalizing our business with intermodal or bulk transfer or other types of rail vs. rail competition."

And when it comes to revenue building, Posner has some simple advice: "It's not good enough to be environmentally friendly and socially responsible. There has to be an economic reason for people to divert traffic to rail. I think that a railway that would be easy to do business with would be a good start."

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