

Q&A:

The Strategic Importance of Short Line-Class I Railroad Partnerships

Expert Insights from PraxiChain's 40-Year Rail Veteran, Derrick Smith





The Expert:

Derrick W. Smith is a strategic leader with 30+ years of experience in private equity advisory, industrial development, and Class I rail commercial strategy. He blends deep rail, financial, and board-level expertise to help clients evaluate growth opportunities, rail-served sites, and investment decisions. Derrick has led major capital programs, advanced industrial development across North America, and driven domestic and international revenue growth.



Why are strong Short Line–Class I partnerships more important today than at any point in the past decade?

The partnership between short line and Class I railroads, including regional operations, is essential to maintaining a viable, safe, and economical option for shippers to move freight across the country. There is a strong level of cooperation between short line, regional, and Class I carriers that has existed for many years, leading to innovative rail service offerings that continue to thrive even in today's uncertain freight environment. Short line and regional railroads have typically been very attuned to the specific needs of their online customers. When opportunities arise for Class I connections, this has not only increased rail traffic but also often enabled those industries to expand their market reach. Since the need for top-line growth remains a stated priority for Class I railroads, strong partnerships with short lines are essential. However, the importance of short lines will increase with greater uncertainty regarding future regulatory changes affecting operating rules, safety, and potential mergers. Class I carriers will be prone to seeking alignment on key issues affecting the industry, particularly with respect to short line and regional connections.



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From your experience, what are the biggest misconceptions shippers have about the role short lines play in network performance?

The conventional thinking is that short lines primarily exist to provide first and last-mile service. What I have experienced throughout my career is that short lines are also a tremendous source for market intelligence, offering insights about ways to grow rail volumes through service improvements or economic incentives. The leadership from these railroads is also well-connected with political and economic development officials throughout their respective territories. This often leads to securing financial assistance and legislative support for making needed improvements to improve rail safety, upgrade track conditions, expand capacity, and support further industrial development.

How can short lines and Class I carriers become better aligned to improve service quality, interchange fluidity, and car velocity?

My experience in working with short line railroads to drive better service quality begins by establishing interchange windows. This is where crews from both carriers have an approximate time to affect an interchange, enabling crews and equipment to be positioned accordingly. The result of this would keep interchange points from becoming congested, and valuable crew time would not be wasted. It is also important that the information systems are utilized to provide plenty of advanced communication so that crews on either side of that interchange are aware of inbound train movements to the interchange.

What operational practices separate top-performing short lines from the rest—and how do those practices benefit shippers?

It begins with having a relentless focus on safety for employees, shippers, receivers, and the public at large, from everyday operating practices to the maintenance of grade crossings, track, and equipment. Short lines that have outperformed peers tend to anticipate the needs of online customers by having a thorough understanding of their operations and underlying market trends. In turn, those carriers advise Class I connections about bringing new business opportunities to rail as well as advocating for when service improvements are required. The ultimate beneficiary is shippers who experience a more seamless and responsive service provided by the serving short line and Class I connecting carrier.



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Paper barriers and interchange limitations continue to challenge competition. From your perspective, where do short lines have the biggest opportunity to drive positive change?

The conversation about having these types of limitations typically arises when either communication or the operation between a short line and a Class I connection becomes strained. It could be the result of a perceived lack of responsiveness from the Class I railroad in terms of aggressively reacting to an opportunity to gain additional volume, or repeated failures in switching or providing railcars. From a Class I carrier's perspective, there was a specific rationale determining how an arrangement with a short line was originally established. A principal consideration in any line lease or sale is preventing the potential diversion of traffic away from the Class I. Therefore, I maintain that even those short lines with an exclusive interchange to a single Class I carrier can still identify potential truck-to-rail conversions, provide services that the connection is less inclined to offer (e.g., railcar storage), and leverage interchange agreements to debottleneck a chronic operating issue.

How can shippers strengthen their relationships with short lines to improve service reliability, visibility, and long-term planning?

The more information a shipper can provide to short lines in advance about changes in production scheduling, inventory adjustments, sourcing changes, or shipment patterns, the more it greatly helps the serving carrier to make important decisions about how best to deploy their resources. Shippers should formally establish ways to communicate with serving short lines to provide a review of service performance, discuss vital sharing of information, and develop initiatives. This would be very useful for short lines to subsequently share with connecting Class I railroads to improve overall operational service reliability and target specific improvements.

Where do you see technology and data making the biggest near-term impact for short lines—particularly around car tracking, demurrage, and interchange management?

Shippers crave more real-time information regarding the arrival, placement, and movement of railcars, whether empty or loaded, as well as network service disruptions. If a scheduled interchange between carriers does not occur, for example, then what is the contingency plan? The ability to share timely data helps shippers to plan or react to situations as they arise.



What role do short lines play in supporting new industrial development, site selection, and rail-served economic expansion?

Short lines can assist in identifying and qualifying parcels of land suitable for providing reliable rail service. Their knowledge of viable properties, as well as their intimate relationships with local, state, and regional officials, can accelerate industrial development. For example, sites on short lines with utility access, proper zoning, or eligible for various financial incentives will usually command the attention of connecting Class I carriers. The rallying cry for many years in industrial development has been to have an abundance of “shovel-ready” sites. This is essential for companies and investors seeking speed to market. Therefore, the ability to jointly promote these sites increases the overall inventory available to both short lines and Class I railroads.

How can smaller short line railroads compete with other short lines and/or partner with them to unlock additional optionality and resiliency for shippers?

The most important thing is to ensure that there are safe operating practices, crews are adequately trained, track and facilities are well maintained, and that any shipper interaction is professional and respectful. I strongly feel this must be in place to gain the respect and trust of shippers. From that, shippers will be more inclined to share opportunities to move more freight over the rail and work closely together. The key is to demonstrate a level of interest in their business and exceed expectations by delivering great service.

As you join the PraxiChain network, what unique perspective or experience are you most excited to bring to clients navigating complex rail networks?

I have been very fortunate to have been associated with the rail industry for almost 40 years through the work I’ve done with a Class I and ongoing consulting in my post-corporate career. My travels throughout this country and overseas have allowed me to see firsthand how rail affects supply chain movements for many industries. Tremendous insights have been gained from being in an appliance or automotive assembly plant, coal, limestone, or salt mines, chemical plants, paper or steel mills, rock quarries, landfills, military installations, ports, container facilities, and transload terminals. That experience has given me a strong appreciation for the resources required to support rail-served industries and the underlying importance of having a strategy to devise an efficient transportation system critical to facilitate any industrial operation. My objective is to utilize this knowledge to assist PraxiChain clients in evaluating business strategies and in devising effective solutions to supply chain or logistical challenges.



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