

1st MONDAY 3rd MONDAY

Prepared for employees by the
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To all Milwaukee Road employees:

From the comments we've received, it appears that most employees welcomed the first full distribution of FM/TM. We'll keep up the practice. We hope that you'll share your copy with anyone, in your family or among your friends, who has -- or should have -- an interest in the progress of "Milwaukee II" toward reorganization.

One question was raised about the distribution of FM/TM to Chicago employees. Wouldn't it be cheaper, we were asked, to distribute copies around Union Station in bulk quantities, department by department, and thus save the postage? Well, cost isn't the only consideration here. First, we want to be certain that each of you receives a copy, and that you get it when and where you can reasonably spend some time with it. On-the-job distribution is chancy. Moreover, with our computerized employee list it's quicker and, all aspects considered, possibly cheaper to let the Post Office do the distribution.

Which brings me to a discussion of how we are restructuring the distribution of -- and virtually everything else about how we handle -- our freight cars.

By September 2, we should have in place an entirely new department, Car Management, in the Marketing Department to control what types of freight cars we have in our fleet, how many we have, how we allocate and assign them, how we schedule their maintenance and modification, and, most importantly, how we determine and then later follow up to see that our car fleet is making for "Milwaukee II" the maximum return on our investment in the fleet.

The Car Management Department won't be merely a new, or super, car distribution system. The department will manage our fleet of some 22,000 cars, and the foreign cars we have on line, with as much respect for the cost of providing the cars as for the revenue loads we can put in them. Car Management will bring together a variety of decision-making processes which up to now have taken place in our operating, sales, marketing, finance, planning and mechanical departments. There shouldn't be any more question about who should make a decision concerning freight cars, or if anyone has.

Between now and September 1, the Car Management Department will be synthesized out of existing functions, and personnel, scattered throughout the railroad. There will of course be some rather large changes in the way we've done things. While the new department has been designed for us largely by Reebie Associates, a great deal of the input into Reebie's design has come from our own people, a number of whom made it perfectly clear that it was high time that we got our car act in order and who went on to make good suggestions as to how we should do it.

How important will the new Car Management Department be? We've set the goal of a \$30 million contribution to profitability yearly through better utilization of our car fleet; or, to put it another way, through better productivity of our

freight-car assets. Our car fleet has a replacement cost of about a billion dollars. We believe that the \$30 million in annual benefits is attainable.

While some things will change, some won't, of course. For example, our sales force will remain as our initial, and principal, point of contact with our customers. But helping to back up the salesmen will be our new Car Management Department, so structured and so equipped with information that it can best determine how we can deploy our available cars to serve not only our customers but our own corporate objectives. This determination will be a continuing process which begins with justifying the size and composition of the car fleet; which involves a continual monitoring and control of the return on our investment in any given car type; which considers which types of cars should be repaired -- or stored -- and when; and which in the final analysis is designed to reverse a long-time downward trend in car productivity both industrywide and on the Milwaukee. Freight cars are too expensive for that trend to continue.

The Car Management Department will be organized around car types. Its three "line" directors will be responsible, respectively, for all decisions concerning box cars, gondolas and hoppers, and flat cars including piggyback and all other types. There will also be three "staff" directors in the department who will concern themselves, respectively, with car-hire control, car information, and car-productivity improvement. As Assistant Vice President, Car Management, Bruce Cederholm will head the department. Bruce will be responsible to Marketing Vice President Pete White.

The effort with respect to cars goes well beyond the restructuring of our organization and the creation of the Car Management Department. For example, the Reebie consultants have directed our attention toward three areas of improvement in which they, and we, believe that results can be achieved in a relatively short period: a thorough look at how we assign cars to on-line industry pools; the control of cars hauling company materials when they could be handling revenue loads; and how we handle cars which are bad-ordered -- should we store or repair them? Fundamentally, these are economic questions, and we'll be looking to Car Management for the answers.

I urge upon all of you a renewed effort to make our car fleet work as productively as possible, and to help us realize the exciting potential of our new integrated approach to car management.

The Labor-Management Action Group now has completed its schedule of 70 introductory meetings around "Milwaukee II." Some 3,000 employees have come to these meetings. The LMAG staff has answered most of the letters the group has received from employees and will have answers out for the balance soon. You are coming up with some good ideas, and I hope you'll keep doing so. For example, at employees' suggestions we've . . .

- made joint labor-management calls on customers between Montevideo and Mobridge, a campaign which has prompted additional train service between Montevideo and Aberdeen;

- adjusted train schedules between Austin and Marquette so that our train is on hand when grain cars are loaded and ready to move, not before;

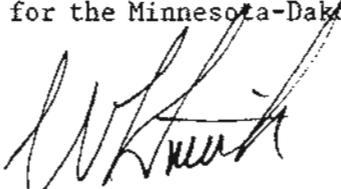
-- placed scrap drums in the yard at St. Paul as a means of collecting used air hoses for reclamation;

-- put cabooses on both ends of our Terre Haute trains to save time in running around the trains at Paris -- a bottleneck which will be further relieved when new track connections are completed;

-- cut unneeded commuter cars off certain "scoots" to save charges from Union Station amounting to several thousand dollars a year.

Also, maintenance forces in the Chicago area now are working on flexible schedules so that they may take maximum advantage of lighter commuter traffic on weekends and get more track work done per shift.

Currently, there's a round of LMAG meetings in process at the division level. Division LMAG coordinators are Mike Beckert for the Chicago Suburban Division, Mike Peterson for the Illinois-Iowa, Bib Shive for the Wisconsin, and Dale Burke for the Minnesota-Dakota.



W. L. Smith
President