

Union Pacific: How Should It Balance Reliability and Productivity?

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A railroad at an operating crossroads

In October 2023, Union Pacific (UP) reported a quarter in which several service measures improved while revenue, earnings and reported operating ratio moved in the opposite direction. CEO Jim Vena, who had recently taken the role, described the company's focus as safety, service and operational excellence to drive growth. The strategic question for his team was how to translate that ambition into operating priorities and capital-allocation rules as it entered its next planning cycle. [1]

UP's third-quarter operating revenue was \$5.941 billion, down 10% from a year earlier. Operating expense fell 4% to \$3.764 billion, and operating income declined 17% to \$2.177 billion. Net income was \$1.528 billion, down 19%; diluted earnings per share were \$2.51, down 18%. The reported operating ratio (operating expense divided by operating revenue) was 63.4%, 350 basis points worse year over year. [1, 2]

The ratio did not tell a simple cost-control story. UP's presentation attributed 170 basis points of adverse operating-ratio effect to net fuel prices. The company also cited lower fuel-surcharge revenue, weaker volumes and mix, inflation, labor-related items and write-offs in its results discussion and bridge. Revenue carloads were down 3%. Bulk revenue fell 10% with volume down 4%; Industrial revenue fell 6% with flat volume; Premium revenue fell 12% with volume down 4%. Core price and mix gains partly offset volume and fuel-surcharge declines. [1, 2]

Management's outlook called for full-year volume below industrial production, which it forecast at 0.0%. Management expected pricing dollars to exceed inflation dollars, but said elevated cost impacts would not be fully offset in the operating ratio. These were forecasts, not reported outcomes. [1, 2]

Better service metrics, mixed productivity signals

UP reported freight car velocity of 200 daily miles per car, up 5% year over year. Intermodal trip-plan compliance was 75%, up 13 percentage points; manifest and automotive trip-plan compliance was 64%, up 6 points. Management attributed the improvements in part to line-of-road performance, reduced car dwell, resource utilization, locomotive fleet rightsizing and transportation-plan optimization. These were company network measures, not shipment-level customer on-time rates, and the presentation did not isolate the effect of each action. [2]

Other measures complicate the picture. Locomotive productivity was 129 gross ton-miles per horsepower-day, up 4%. The company described workforce productivity as 985 car miles per employee and said it decreased 6%; the presentation graphic labels the measure daily car miles per FTE and shows a downward 6% arrow. The materials do not reconcile “employee” and “FTE.” Maximum train length on route was 9,537 feet, up 1%; it was not an average train length. Management also reported year-to-date improvement in personal-injury and derailment rates, without counts or a detailed exposure-adjusted comparison in the presentation. [1, 2]

The reported operating ratio and individual efficiency measures were not a single measure of total productivity. They could reflect changes in volume, commodity mix, fuel surcharges, staffing, cost inflation, network utilization and service quality in different ways. Improved network averages did not establish that every corridor or customer had reliable service, nor did they show where additional capacity would create value.

Capital context, not a ready-made pool

UP updated its **2023 capital plan to \$3.7 billion**. It maintained its quarterly dividend at \$1.30 per share and said it did not plan further share repurchases in the remainder of 2023. The disclosed capital figure was a full-year plan; UP did not identify an uncommitted incremental pool, a 2024 budget, or a list of projects awaiting allocation. [1, 2]

The public results materials did not show which yards, sidings, signals, locomotives, crews or mainline segments were binding constraints. They also did not disclose project costs, implementation timing, expected service effects, customer-level economics or comparative returns. A general decision framework therefore had to precede any credible project ranking.

The decision

Assume you are advising UP’s operating leadership after the Q3 release. Your assignment is a **classroom strategy exercise**, not a disclosed company mandate: recommend how management should balance operating-ratio improvement with reliable service and capacity as it sets the next planning cycle’s priorities.

You may recommend one of three broad approaches, or a sequence that combines them:

1. **Prioritize operating changes and utilization.** Continue redesigning processes and using existing assets more intensively, with explicit safety, staffing and service guardrails.
2. **Invest selectively at verified bottlenecks.** Require local evidence that a specific terminal, siding, locomotive, signal, crew or other constraint limits service before committing capital there.
3. **Preserve or add broader capacity and slack.** Add network or terminal capacity when demand, disruption and service evidence show that operating changes or narrow fixes cannot deliver reliable throughput.

These are analytical alternatives, not proposals announced by UP. The evidence available does not establish which locations are constrained, whether spare capacity is excessive or valuable, or what returns any option would earn. Do not treat the \$3.7 billion 2023 plan as a discretionary pool. Your recommendation should specify what UP ought to measure, what finding would trigger each investment or operating response, and what evidence would change your view.

Exhibit 1. Selected third-quarter results

Measure	Q3 2023	Change vs. Q3 2022
Operating revenue	\$5.941bn	–10%
Operating expense	\$3.764bn	–4%
Operating income	\$2.177bn	–17%
Net income	\$1.528bn	–19%
Diluted EPS	\$2.51	–18%
Reported operating ratio	63.4%	+350 bps

Source: [1] and [2]. Rounded reported figures. The operating ratio is operating expense divided by operating revenue. Management’s bridge attributes part of its year-over-year change to fuel and other comparability factors; it is not a pure productivity measure.

Exhibit 2. Selected operating measures

Measure	Q3 2023	Reported year-over-year direction
Freight car velocity	200 daily miles per car	+5%
Intermodal trip-plan compliance	75%	+13 percentage points
Manifest/automotive trip-plan compliance	64%	+6 percentage points
Locomotive productivity	129 GTMs per horsepower-day	+4%
Workforce productivity	985 car miles per employee / daily car miles per FTE	–6%
Maximum train length on route	9,537 feet	+1%

Source: [1], “Operating Performance,” and [2], Key Efficiency Metrics (PDF p. 7; slide marked 13). The release says “per employee”; the graphic says “per FTE.” The denominator wording is unreconciled. “Maximum train length on route” is a maximum, not an average. Company-reported measures are not total-factor productivity or customer shipment on-time rates.

Exhibit 3. Context for interpreting operating ratio

Q3 comparison	Q3 2023	Year-over-year movement / company explanation
Operating ratio	63.4%	350 bps adverse
Net fuel-price effect in presentation bridge	-	170 bps adverse
Total revenue carloads	-	-3%
Core price/mix in revenue bridge	-	+1.50%
Volume in revenue bridge	-	-2.75%
Fuel surcharge in revenue bridge	-	-8.00%

Source: [1] and [2] (PDF pp. 3, 11-12). "Price/mix" combines effects; fuel-surcharge revenue moves with fuel prices. The bridge helps explain reported results but does not identify controllable savings or customer-level economics.

Discussion questions

1. What should guide UP's balance among operating improvement, targeted bottleneck investment and broader capacity or slack?
2. Which Q3 measures are useful for tracking productivity and service, and what do they leave out?
3. What local, customer and financial evidence should be required before making a targeted or broader capacity commitment?
4. How should management set safety and service guardrails while pursuing better asset utilization and operating-ratio performance?
5. What observable result would cause you to change your recommendation?

Source key

- **[1]** Union Pacific, "Union Pacific Reports Third Quarter 2023 Results," October 19, 2023, full release, including operating performance and full-year outlook. [Release](#). The company announced release availability for 7:45 a.m. ET and an earnings call at 8:45 a.m. ET. [Release-date notice](#).
- **[2]** Union Pacific, Q3 2023 earnings presentation, October 19, 2023, 12-slide PDF; pp. 2-7 and 10-12. [Presentation PDF](#).

Information cutoff: October 19, 2023, 8:44:59 a.m. ET. The earnings call began at 8:45 a.m. ET; its remarks and replay are excluded. The October 19 Form 10-Q was accepted by the SEC at 11:28:18 a.m. ET and is excluded. No later results or outcomes are part of the case.