A RAILROAD CEO TELLS THE TALE OF A REMARKABLE POST-ELECTION TURNAROUND.

**THE PROBLEM** The stock market crushed a 130-year-old railroad company when President Trump threatened to end NAFTA.

**WHY WORRY?** Leaders can get tested by seemingly out-of-nowhere challenges.

**THE LESSON** Building consensus, even among your rivals, like Kansas City Southern has done, can help head off existential threats.
By Jonathan Dahl

IT’S A BRIGHT, sunny morning in downtown Kansas City, and even though the historic railroad car in which we are dining has small windows, somehow the sun seems to be shining quite brightly on Pat Ottensmeyer.

Relaxed and dressed in a suit jacket with his shirt-collar open, the president and CEO of Kansas City Southern is enjoying his fruit-laden oatmeal as he discusses the company’s recent board dinner and meeting. “It was really nice, a terrific experience,” he says, as if he were talking about a picnic instead of the tense board meetings many companies with activist directors (of which Kansas City Southern has none) must deal with—and that the railroad could have been facing.

After all, it was only a year ago, one day after the presidential election, when the stock market wiped out $1 billion in the company’s market capitalization. That day, analysts and investors alike had assumed the 130-year-old railroad was doomed under a Donald Trump presidency, given his campaign rhetoric around Mexico—where Kansas City Southern happens to do literally half its business.
The president-elect, as we all recall, had vowed to build a massive border wall and tear up NAFTA, the two-decade-old trade agreement with Mexico. Which was about the worst news possible for Kansas City Southern, whose primary tracks run straight down the center of the United States into Mexico, where the company also operates extensive rail lines. Quite vividly, Ottensmeyer recalls hearing about Trump’s announcement on leaving NAFTA. “We were on the way to see this official in Mexico, and I said to my colleague, ‘I need to know one thing: What floor is this guy’s office on?’”

But Ottensmeyer didn’t jump—he instead began an intensive lobbying campaign, joining a group of business leaders who support NAFTA. To be sure, US-Mexico negotiations are still ongoing, but remarkably, Kansas City Southern has turned around its fortune, making up the stock loss and then some, and posting some tidy profits along the way. Many credit the CEO’s friendly but determined approach to educate congressional and White House officials about NAFTA, along with his role as US chairman of the strategic trade initiatives working group for the US-Mexico CEO Dialogue. “He’s been very vocal and that’s been good,” says Anthony Hatch, a veteran railroad analyst and head of ABH Consulting.

There is, of course, more to the story of this $2 billion railroad company and its 60-year-old leader. Outside the company’s downtown Kansas City headquarters, in the very railroad car President Truman used to hold his stump speeches, the CEO talked with Jonathan Dahl, editor in chief of Briefings, about the market siege, the comeback effort, and everything else, from his thoughts on succession to the odds of a driverless railroad network. (Questions and answers have been edited.)

“The vision I have is to make it possible to run an entirely automated rail network.”
Forgive me, but I have to ask a railroad CEO this: How do you keep the trains on time? • Well, we can’t always keep the trains on time, but we have been doing a lot of work on our transportation service plan. By that, I mean we have done a lot of training with our first-line supervisors on how to become more metric-focused and disciplined, to look at performance data on a day-to-day basis and really tighten the focus on service. We are not in the business of running trains. We are in the business of servicing customers.

Your company is unusual—being much smaller than the four major railroads but still thriving. • We have a very strong and unique position, being in one of the fastest-growing industrial markets in North America, which happens to be in Mexico, and having great interconnecting relationships with the other carriers. We actually don’t overlap much with our larger competitors, but are a logical extension of their networks into the Gulf Coast and Mexico.
So, after the presidential election, your company’s market capitalization dropped almost 12 percent. What’s that like for a CEO? • People were calling us and asking what this all meant to the company. And I told them same thing I told the board: I don’t know what the outcome means. But my promise to the board and to employees and to shareholders is that I’m going to get involved and get a seat at table with the decision makers. I’m not going to just sit back and see what happens with NAFTA, but try to influence as many policy makers as possible.

But what about the very next morning? What did you do? • My first step was to write a letter to the employees. The letter was all about how we needed to stay the course, that we don’t know how the campaign rhetoric is going to play out. NAFTA has been in the crosshairs and fuel for campaign rhetoric for at least three election cycles, and it’s still here. There’s a quote I like to use that I think makes the point: “We should use the hammer of a potential opt-out as leverage to ensure that we actually get labor and environmental standards that are enforced.” Barack Obama said that in October 2008.

And he, of course, would end up supporting NAFTA. So give me the elevator pitch on why NAFTA needs to stay. • Any agreement that’s 23 years old needs some updating. But the growth in trade between the US and Mexico and of NAFTA has just been phenomenal. It has quadrupled since the agreement started and, overall, NAFTA accounts for $1 trillion in annual trade. You hear a lot of concern about the trade deficit, but 70 percent of our company’s cross-border traffic with Mexico is export. And exporting is where a lot of our country’s growth will come.

There is also a lot of talk about NAFTA being responsible for job losses, especially in the auto industry. But it just is not true. Go into any plant and you’ll see that most of the jobs have been lost to automation. Our own figures show NAFTA supports 14 million jobs in this country.

Well, is the argument working? • I think we are educating people. I met with Commerce Secretary [Wilbur] Ross, and the conversation was all about the trade deficit. He wasn’t aware that we move steel. Steel is one of our export products. And his comment
was, ‘I thought there were a lot of steel plants in Mexico.’ Yes, there are. But they don’t make the kind of steel that goes into high-quality, finished automobiles, appliances and electronics. Theirs is more structural.

The country does have a trade deficit with Mexico in agriculture. But what we export into Mexico is crops that are produced in a highly efficient, mechanized, almost industrial manner, such as grain, corn, soybeans and soybean meal. What we import from Mexico is very labor intensive—avocados, broccoli and tomatoes, crops that have to be picked by humans in the field. These are products we can’t find enough labor for in this country.

**In the end, how were you able to recover so quickly from the election stock decline?**

That’s a good question. I’ll say this—the factors that were creating the superior growth profile for Kansas City Southern were just too strong. The momentum of those factors could not be derailed, no pun intended, by any election rhetoric. I think Wall Street just didn’t understand that things weren’t going to change overnight. You cannot suddenly dismantle years of investment that created the supply chain between the US and Mexico or the importance of the trade it now spurs. It would take years to do that, if you could do it at all.

**As you move forward now, tell us about your approach to your job. Coming up through the banking and finance side of the business, you’re a different type of railroad CEO.**

I’m not an operating guy. I’m not going to make decisions about how we utilize assets on a day-to-day basis or whether we move this train or not. That’s the history of the railroad industry: CEOs who were tough.

I like to describe them as guys with ugly hands—broken fingers from working on railroads. They were all about the operational side of the business. I’ll be much more focused on strategy, values and culture, capital allocation and succession planning.

**You mention succession. A lot of CEOs are not fond of thinking about a successor, especially early into the position. But you see it as a key part of your job?**

My own transition couldn’t have been better planned out and smoother, and I think doing the same for my successor is an important part of growing the company. I’ve been having conversations with my team and the board about what are the things we need to develop people. To be honest, I will be very disappointed if my successor doesn’t come from my team. We have several talented people who I know want to be CEO someday, and there’s no reason that shouldn’t happen.

**Finally, let’s talk about technology. With all the changes in transportation, will we ever have driverless trains?**

The vision I have is to make it possible in the future to run an entirely automated rail network. Whether we will ever see driverless trains, I don’t know. The regulatory framework, the labor framework, all those things are going to be important. But I still think, whether we have humans operating trains remotely or a human in the cab of a locomotive, we can take technology to the next phase and make it possible to run an autonomous rail network in the future. That would have a very positive payoff in terms of service, consistency and reliability.