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Presentation

Operator

Greetings, and welcome to the Norfolk Southern Corporation Fourth Quarter 2023 Earnings Call.

[Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce Luke Nichols, Senior Director, Investor Relations. Thank you. Mr. Nichols, you may begin.

Luke Nichols
Senior Director of Investor Relations

Thank you, and good morning, everyone. Please note that during today's call, we will make certain forward-looking statements within the meaning of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or future performance of Norfolk Southern Corporation, which are subject to risks and uncertainties and may differ materially from actual results. Please refer to our annual and quarterly reports filed with the SEC for a full disclosure of those risks and uncertainties we view as the most important.

Our presentation slides are available at norfolksouthern.com, in the Investors section, along with a reconciliation of any non-GAAP measures used today to comparable GAAP measures.

Turning to Slide 3. It's now my pleasure to introduce Norfolk Southern's President and Chief Executive Officer, Alan Shaw.

Alan H. Shaw
President, CEO & Director

Good morning, everyone, and thank you for joining Norfolk Southern's Fourth Quarter 2023 Earnings Call. Here with me today are Mark George, our Chief Financial Officer; Paul Duncan, our Chief Operating Officer; and Ed Elkins, our Chief Marketing Officer.

Last year was historically challenging with a major derailment to start off the year, followed by network disruptions, and compounded by a stubbornly weak freight market. The Eastern Ohio incident tested our resolve. I'm proud that our team responded decisively and responsibly to protect this great franchise and our shareholders, and to address the community's concerns.

With an unwavering commitment, we have strengthened our safety and service. We have kept and will continue to keep our promises to make things right in Ohio, to improve our service to our customers, and to make a safe railroad even safer. A crisis allows you to accelerate change and we acted. This includes a number of positive changes to how we design the network and assemble trains with measurable results. As we show on Slide 4, our improvement in safety is already being highlighted by a dramatic 42% reduction in our mainline accident rate in 2023.

2023 was also historically important for Norfolk Southern because we began to implement and advance our new strategy to position our business for sustainable growth and success. The intermodal service composite chart on the right side of Slide 4 tells an important story that speaks to the clear gains we have made in both resiliency and service following significant strides in service in 2022. With our investments in resiliency through leadership plan and resources, we demonstrated the ability to execute our strategy to run a safer railroad that delivers a compelling service product to our customers and handles increased business, a balanced approach to safely delivering service, productivity and growth.

We overcame multiple significant network disruptions in 2023 and exited the year with the best intermodal service we have delivered in over 3 years, all while intermodal volume grew 5%. Entering 2024 with a safer and more fluid network that is attracting growth, we have the platform to narrow our focus to specific areas to drive increased productivity. And we are building positive momentum by executing on our strategic vision. Part of that strategic vision is our commitment to industry competitive margins, and we are determined to deliver on that promise just as we have delivered on promises on service and safety as volumes grew.

We will leverage our PSR operating plan with our current resource base to meaningfully improve velocity and resilience within our merchandise network, which accounts for 2/3 of our train starts. As we achieve a high degree of compliance to the plan and merchandise, we will reduce variability, complexity and cost. We are driving that forward now with the results already seen in December and January. It will drive asset velocity that will lead to productivity gains and cost savings. And in 2024, we are targeting a double-digit percentage improvement in terminal dwell, which is a good barometer of the health of our, and fluidity, of our merchandise network.

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Paul will go into more detail about how we are planning to build on our success in intermodal, deploying changes to accelerate our merchandise network, which I've noted will be a major source of productivity for Norfolk Southern in 2024 and beyond. To further describe what we are doing to improve profitability and drive smart growth in 2024, Ed will talk about how his team is winning business and pushing hard to negotiate price in excess of inflation.

Importantly, we are streamlining our cost structure and eliminating inefficiencies. We invested in 2023 to enhance safety and service. We will see the benefits of this in our cost structure in 2024. We will take actions this year to reduce costs in other areas. This includes a program to reduce management headcount by roughly 7% to help offset increases in critical operating areas.

Our groundbreaking transformation will take time. We recognize the necessary investments in resiliency and service had temporarily increased our cost structure, particularly visible during the trough in this freight cycle.

On Slide 5, you'll see we laid out the scenario where during a down cycle we may modestly underperform in order to be coiled to secure volume and incremental margin when the freight cycle recovers.

While we didn't expect 2023 to be a continuation of a soft rate market, coupled with numerous disruptions, we are optimistic that recovery is on the horizon and our investments will yield returns. We will deliver near-term margin improvement as we implement our strategic vision: a balance between safe service, productivity and smart growth. We are on the path to achieve that balance.

In the aftermath of the derailment and network disruptions, we have improved safety and service in a responsible manner and are in securing new business with a stabilized network and a high degree of compliance to the plan. We will continue to iterate the plan, reducing complexity and enhancing executability and balance. All of this will unlock productivity and fluidity, which, in line with our strategy, will allow us to attract more volume at accretive incremental margins and deliver top-tier revenue and earnings growth at industry competitive margins.

With strong franchise advantages that will serve us well as we move through this economic cycle, we are poised for a bright future as we balance safe service, productivity and growth.

I'll turn it over to Mark and the rest of the team, who will add some context around the timing and magnitude of our planned improvements in performance and profitability.

Mark R. George
Executive VP & CFO

Thank you, Alan, and good morning, everyone. I'll start on Slide 7 with an update on our costs related to the Eastern Ohio derailment. During the fourth quarter, we reached a significant milestone with the bulk of the soil remediation being completed. It's an encouraging achievement. However, as you'll note, we incurred $137 million charge in the quarter, which related to an extension of the time line for ongoing testing as well as additional work that will be completed in nearby streams. There was another $89 million incurred in legal costs and other fees. But of note, we received $76 million of insurance recoveries, bringing the total recoveries in 2023 to just over $100 million. From a cash perspective, the net outflow in 2023 was $652 million after the insurance recoveries.

While we're pleased with our remediation accomplishments, we currently expect ongoing monitoring efforts and cleanup efforts will continue through 2024. There will be additional costs in the future related to legal settlements and fees, although the amounts and timing cannot currently be estimated.

Moving to Slide 8, where we illustrate the impact of these fourth quarter results on our results. Our GAAP results are in the first row. While on row 2 we isolate the accounting to our Q4 financials related to the incident. At the bottom of the chart, you'll note the comparisons of the adjusted results to prior year. I'll be talking about our adjusted results for the remainder of the discussion.

Revenues were down nearly 5%, while adjusted operating expense was 3% higher. The adjusted operating ratio for Q4 2023 was 68.8%, which represented a year-over-year deterioration but notably was up 30 basis point sequential improvement from our third quarter performance. The sequential improvement is encouraging but we fell short of our expectations as service-related costs did not come down as we anticipated.

While our recovery efforts related to the IT outages in late Q3 restored service quickly for our customers and allowed us to handle more business, it cost more money in the form of crew-related expenses that persisted well into the fourth quarter. On an adjusted basis, operating income was down 19% year-over-year. Net income and EPS were down 19% and 17%, respectively.

Turning now to Slide 9. Adjusted operating expense for the quarter was up $59 million. The increase, excluding fuel decline, was up $123 million. The largest drivers of the increase were employment growth as well as inflation across all categories. In comp and ben,

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looking to '24, we plan to keep overall head count levels flat versus the year-end '23 exit rate, with some additional mechanical craft hiring to be offset by upcoming reductions in the nonagreement category that Alan discussed.

Purchased services was up due to higher costs associated with technology spend as well as increased mechanical services, including repairs around our auto fleet as we prepare for growth opportunities in 2024. The increase in rents was driven by short-term locomotive resources and increased car supply for our auto fleet. We expect quarterly rents in 2024 to remain slightly above these fourth quarter levels due to more adverse TTX equity costs and volume metric related increases, partially offset by benefits coming from improved velocity.

The increase in materials relates to locomotive and freight car repairs. Claims were lower year-over-year. Recall that in Q4 2022, we had a large adverse adjustment. The other component is unfavorable, driven mainly by fewer real estate gains.

Moving now to Slide 10. Last quarter, we introduced this slide to help investors think about our service costs and resiliency investments, which are 2 components of our current cost structure. On the left side, we see costs that should not be part of our cost structure and have grown out of service that has not met planned levels, mainly related to recrews and overtime. These costs did not step down as expected in Q4 due to the crew-related costs we incurred to accelerate service recovery for our customers after the IT outages. So while service has been at strong levels exiting the year, Q1 costs will remain somewhat elevated in part from the cold weather we are seeing here in January. Overall service costs should meaningfully unwind in Q2.

On the right hand, we show costs tied to our investments in resiliency, mainly related to additional T&E crews that we have added in locations where we were understaffed as we position Norfolk Southern to realize outsized growth in revenue and margin in a growing volume environment. Our total T&E headcount is now at an appropriate level that will allow us to absorb volume growth in '24 and beyond. There will be some additional hiring in mechanical crafts that will be offset by reductions in non-agreement positions. The additional craft hires mean that resiliency costs will settle in roughly in the $55 million per quarter range in 2024. Adding those resources will drive benefits over time of being an even safer and higher-velocity operation.

Moving to Slide 11 and results below operating income. Other income of $38 million was up $4 million in the quarter, driven by higher interest income on the extra cash we are carrying ahead of the CSR closing. The adjusted effective tax rate was 19.2%, due to a rate adjustment on our deferred state income taxes and tax-free gains on favorable company-owned life insurance. For 2024, we expect our tax rate to be in the usual 23% to 24% range.

Turning to Slide 12 and recapping our full year results. We started the year planning for modest top line growth that would afford a level of expense growth to help drive our strategic track toward resiliency. The disruptive events of the year and an adverse macro environment upended this. Revenue declined 5%, which was meaningfully affected by about 6 points of pressure from lower fuel surcharge revenue and a sharp year-over-year decline in storage fees. At the same time, OpEx rose 5%, fueled by inflation and investments in our business. As a result, operating income fell 18%, with the operating ratio rising to 67.4%. Favorable below the line items and benefits from share repurchases held the EPS decline to 15%.

In 2023, free cash flow was $1.4 billion lower than the prior year, representing the impact of the $650 million derailment-related outlays as well as the lower operating income, coupled with higher CapEx. Shareholder distributions in '23 were $1.8 billion, with 2/3 being driven by our rock-solid dividend and the remainder from share repurchase activity.

I'll mention that we did issue debt in November and built up our cash balance to $1.6 billion at year-end as we prepare to fund the strategic CSR purchase that is scheduled to close on March 15. As a result, we will see higher interest expense in 2024, and we will temporarily suspend share repurchases while we absorb the asset and bring our credit metrics back into our target range.

It's important to remember that CSR is a highly strategic, critical artery in our network, for which we had a rare window to secure and guarantee control of the asset forever. This also enables us to control longer-term costs that could have begun to escalate sharply with the upcoming lease renewal.

I'll now hand over to Paul, who can provide an update on our operations.

Paul B. Duncan
Executive VP & COO

Thank you, Mark, and good morning. Turning to Slide 15 to begin our operations discussion with safety. We made progress in enhancing safety in 2023. We finished the year with our second-best injury rate in 8 years but we are striving for better. We enhanced our conductor training program and continue to leverage our partnership with Atkins Nuclear, a foremost expert in safety across all

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industries. We also closed 2023 with a 42% reduction in our mainline accident rate and the fewest mainline accidents since 1999. Thank you to all of our craft colleagues and leaders for enhancing safety at Norfolk Southern this last year.

While these are very noteworthy accomplishments, we must become even safer. When the major incident in Eastern Ohio happened in early 2023, we were already in the process of reviewing and adjusting our train makeup rules and it was a high priority of mine. We ended up accelerating network by a lot. What we produced was an even better product than we already had, which helped us make such progress in mainline accidents, and we are striving to become even safer.

This is the platform for which we can now lever up our train plan to deliver productivity and growth. Though the change in our operating rules was implemented on an accelerated time line and caused network disruption, we know it was the right move for the long term and we kept our promises to restore fluidity and service levels in the second half of 2023. The future of our operation is very bright and I am proud of the work we did in 2023 on this front to keep our promises.

Moving to Slide 16 for further discussion on service levels. We took a modest step backwards to begin the quarter related to the system outages that we experienced but quickly regain footing and continued our glide path of improvement in November and December. It is important to note that we deliberately chose to deploy additional resources so that we could balance restoring fluidity while delivering peak volume.

We were successful on that front. We delivered a very strong service for our intermodal customers during peak season and pushed overall volumes to their highest levels in over 2.5 years as you will hear more about from Ed. But as you heard from Mark, it did result in higher-than-planned service recovery costs in the quarter. We remain sharply focused on reducing those and have actively been unwinding more T&E crew expense in recent weeks in areas such as temporary deployments, overtime, recrews and other crew-related expenses. This has included reducing our intensity of GO Team members deployed on the network. Now that we have made this next step function improvement in intermodal service, we expect to remain there as we transition to leveraging our resources to drive greater productivity and growth.

Turning to Slide 17 for a discussion on productivity. We've improved 4% sequentially within workforce productivity and expect an improving glide path to continue. We are driving this in 4 ways: One, by improving fluidity; two, by maintaining strict discipline and accountabilities to plan compliance in our operations; three, through discrete productivity initiatives that we'll discuss in a moment; and finally, through converting trainees to productive employees.

As promised last quarter, we ended the year with 600 conductor trainees. We are now confident with the overall size of our T&E workforce to efficiently serve the growth that is on the horizon. On the locomotive front, referencing our service commentary, miles per day remained lower as we kept additional power and service to jump start the network with peak volume. This is an area that will benefit significantly from further improvements in velocity as faster train speeds allow us to drive our locomotives in the terminals on time and send them back out on their scheduled connections. And lastly, fuel efficiency finished flat despite the additional locomotives online, thanks to our initiatives. And this is an area we are intensely focused on improving in 2024.

Moving to Slide 18. The next phase of our operational improvement will be marked by enhancing the velocity and resilience within our merchandise network. Recall that our TOP|SPG operating plan, which we launched in 2022, brought further PSR principles to our intermodal network, driving enhancements to container velocity and resilience with intermodal. That successful evolution enabled intermodal service to remain strong throughout 2023, particularly in Q4 where we delivered the best intermodal service in over 3 years while delivering on peak season.

Now we are building on that success with further enhancements in our merchandise network. First, we are improving our execution and discipline to run with a higher level of plan compliance. We're tying together the improvements we've made around our operational strategy leadership accountabilities and resource allocation by sweating our assets further and strict execution to the plan.

Next, we are leveraging precision train building processes embedded into our terminals to optimize connections and depart trains on time. We're already seeing the benefits that arise from success in driving scheduled network velocity. Our success will be demonstrated by making sustained improvement in terminal dwell, where, as Alan mentioned in his opening remarks, we expect to drive a low double-digit percentage improvement in 2024 versus 2023. Investors can also track our progress in the AAR train speed, particularly the subset of manifest train speed, which has an outsized impact on our cost structure as well as merchandise trip plan compliance and car velocity, the outcomes of improving speed, dwell and disciplined execution of plan. Of course, there is always week-to-week noise in these measures, so we would look for improvements in trends on a rolling 12-week basis.

On Slide 19, I'd like to provide more detail on how sustaining these velocity improvements will drive down our cost structure. First, we will see reductions in various buckets of T&E related expense, and that will also help to lower our headcount intensity. Next, as we spin up the flywheel, we'll get cars moving faster, a critical element to scheduled rarity and overall productivity. Having our yards in

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mainlines more fluid will indicate that cars are flowing unimpeded through the network. This will drive a capacity and productivity dividend within our fleets, in our yards and on our main lines. That, in turn, will allow us to bring on growth at low incremental cost, lifting the overall workforce and locomotive productivity and achieving service resilience that will allow us to take further share from truck. Driving these benefits into our operation by improving the velocity and resilience of the merchandise network will be a key aspect of delivering progress in 2024.

Thank you, and I'll now turn the call over to Ed.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Thanks, Paul, and good morning to everybody on the call. Beginning on Slide 21, let's cover our commercial results for the fourth quarter. Overall volume improved 3%, led by growth in intermodal and our automotive markets. Now despite volume growth, total revenue and revenue per unit declined for the quarter due to lower revenue from fuel surcharge and intermodal storage and fees, along with negative shipment mix within the portfolio continuing from last quarter as well as headwinds from a weak truck price environment due to the persistent overabundance of capacity.

Looking at merchandise, volume was flat compared to the prior period and revenue was challenged by lower revenue from fuel surcharge compared to that prior period. RPU less fuel increased 1% as price gains more than offset the impacts from negative mix. This increase set a new quarterly record for Norfolk Southern and marks the 34th of the last 35 consecutive quarters of year-over-year growth in merchandise RPU less fuel. We're committed to driving value through price and this commitment is demonstrated through quarterly record set in our automotive market for revenue, revenue less fuel, revenue per unit, and revenue per unit less fuel.

Let's move to intermodal. Volume in the quarter increased 5% year-over-year, with gains in both our domestic and international lines of business. Revenue for Intermodal was down 13% year-over-year, primarily driven by significantly lower revenue from storage and fees in the prior period. Also lower fuel prices and an excess supply of available trucks as well as negative mix within our international business impacted revenue per unit negatively. Excluding the impacts of fuel and elevated storage and fees, which are related to supply chain congestion, Intermodal RPU declined 1% in the quarter. We're confident our domestic franchise is a coiled spring, positioned to yield strong incremental value as the truck market recovers.

Turning to coal. Overall volume increased slightly, with strong demand for export more than offsetting declines in our utility coal franchise. The market for utility confronted persistently high stockpiles and low natural gas prices. Coal revenue was down 4% year-over-year, with lower commodity prices and lower revenue from fuel surcharge negatively impacting RPU.

Now let's turn to Slide 22 and review results for the full year. Total volume came in at 6.7 million units, a 1% decrease from 2022. Volume declines were most significant in intermodal and our energy-related chemical commodities. On the positive side, lower ocean freight rates, advanced demand for international intermodal and rising vehicle production activity drove growth in our automotive franchise, both of which contributed meaningfully to offsetting larger declines. Revenue for the year was $12.2 billion, down 5% or $590 million from 2022, driven by lower revenue from fuel surcharge and storage fees as well as lower volume.

I do think it's important to point out, however, that if we exclude the $650 million revenue hit from fuel and storage fees, which is essentially a post-pandemic normalization of those items, underlying revenue was actually positive, even with volume down 1%, which speaks to our commitment to core pricing smart growth. RPU excluding fuel, intermodal storage and fees increased 2% as we realized above budget price results in merchandise and in coal. In fact, we set annual records for merchandise revenue, revenue less fuel and RPU less fuel.

Objectively, the freight environment in 2023 was soft with weak demand for goods, lower levels of manufacturing activity and generally less freight coming in from overseas. These conditions amplified the excess capacity in transportation pressuring margins and growth opportunities. Our focus throughout the year was creating value with a resilient network to drive growth. In the fourth quarter, we saw that growth materialize with improved volume, and that volume will bolster our revenue performance in the coming year as we execute our pricing strategy to grow core revenue per unit.

Let's look ahead to 2024 on Slide 23. Our market outlook is for modest volume growth. In merchandise markets, overall volume growth is expected to be driven by gains in steel shipments. Automotive will grow on continued strength in vehicle production, including new EV business. Improved fluidity and increased network velocity will lift our effective capacity in both of these markets.

Shifting to intermodal, we are optimistic that increasing levels of international trade will boost demand for both our domestic and international services. There's still uncertainty around how quickly capacity in the truck market rightsizes. Additionally, the strength of the consumer could pressure growth if the economy softens.

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Lastly, our coal outlook is for relatively flat volume levels compared to last year. Demand for export coal is forecasted to be high but some of this demand will be met via a shift of historically domestic coal to export markets. Utility demand will be driven by stockpile levels, which are forecast to remain elevated in 2024, aside from extreme weather events.

Looking at price, we expect strong pricing conditions in our merchandise markets, aided by our improved service product. However, as mentioned, a persistently weak truck market will mute the opportunity for intermodal price with contract truck rates expected to trend roughly sideways from their current levels throughout 2024. We also faced some headwinds on coal pricing this year related to difficult comparisons for seaborne coal prices, with additional pressure from high stockpiles and weak natural gas prices.

All said, we still expect to generate pricing above rail inflation in 2024. When we take all this together, we are reasonably confident that overall market fundamentals will create opportunities for us to bring on new freight and further the volume trend we achieved in the fourth quarter of 2023, while delivering incremental top line revenue growth through core pricing gains as we price into the value of our enhanced service product.

Finally, let's turn to Slide 24. I'd like to give you some examples of how our customer-centric approach is yielding smart and sustainable growth. Last February, our team met with FedEx Ground with the intent to enhance Norfolk Southern service for their transportation network. We listened to their business forecast and made strategic adjustments that we knew would set us up to better serve this valued customer. We charted a better way forward for both of our organizations. As a result, we were able to significantly increase our volume for FedEx Ground during peak season and we look forward to continuing that growth into the future.

We also landed a new plastic recycling plant in Ohio with our new customer, PureCycle, which is expected to launch this quarter. This is a great example of the circular loop that is possible within the plastic supply chain and how Norfolk Southern can deliver that resin in a carbon-friendly manner.

Finally, 2023 was another successful year for the Norfolk Southern Industrial Development team. We partnered with 62 customers to facilitate the completion of strategic industrial development projects in 2023. Collectively, these projects represent $3.1 billion in customer investment and the creation of more than 4,150 new jobs along Norfolk Southern lines. As we look into 2024, we're encouraged by the continued robust pipeline of customers that are looking to locate facilities along our lines. These successes in 2023 are indicative of the success that we expect in '24 and demonstrates our strategy to deliver a better way forward for our customers, our communities and for our shareholders.

With that, I'll turn it back over to Alan.

Alan H. Shaw
President, CEO & Director

We overcame a number of challenges in 2023 and we are moving forward with confidence. Our resolve to deliver on all aspects of our strategy has never been stronger. We restored service and improved safety in a responsible manner to protect our franchise and long-term shareholder value. We ended 2023 with the best intermodal service we've seen in years and with an encouraging 5% increase in intermodal volume. Now we enter 2024 with a fluid network, which will drive productivity gains and further growth this year.

Turning to our outlook. We anticipate roughly 3 points of revenue growth in 2024. This growth, combined with our productivity initiatives, will yield strong accretive incremental margins with operating income growing in excess of revenues. Net income and EPS growth will be suppressed in 2024 versus 2023, owing to higher interest expense from the highly strategic acquisition of CSR, along with the temporary suspension of our share repurchase program. As for the progression through the year, typical seasonality suggests that second quarter and third quarter should be our strongest in terms of margin performance.

Obviously, the first quarter will have some industry-wide impact, from widespread cold weather in January, and our first quarter still has year-over-year headwinds from storage fees, fuel revenue and export coal price. In line with the Investor Day guidance, over the midterm horizon, we anticipate delivering strong incremental margins, presuming a normal freight cycle and mix and 3 to 4 points of revenue growth. A combination of volume absorption, productivity initiatives and a commitment to cost control will be key drivers.

We aren't going to give you a specific margin target but it should result in between 100 to 150 basis points of margin improvement annually, on the pathway to narrow the margin gap with peers and deliver industry competitive margins. You'll start to see progress along those lines in 2024 once we lap some of the revenue compare challenges in the first half. We see a path to outsized gains on the up cycle, leveraging volume growth within existing resources, ample productivity runway, and strong core pricing that can outpace inflation pressures. As we narrow our margin gap over time, the secular growth prospects of our powerful franchise will deliver shareholder value through earnings momentum and free cash flow generation.
And with that, let's open the call for questions.

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Question and Answer

Operator

[Operator Instructions] Due to the number of analysts joining us on the call today, we will be limiting everyone to 1 question each to accommodate as many participants as possible.

Our first question comes from the line of Chris Wetherbee with Citigroup.

Christian F. Wetherbee
Citigroup Inc., Research Division

I wanted to think a little bit about the bigger picture here, Alan. You talked about the 100 to 150 basis points of OR opportunity per year over a 3-year period. As we kind of think about you guys relative to some of your closer peers, that's about half of the gap that exists today. So I guess as you think over, is there more opportunity beyond that? It just takes time to get there? Do you think that there's still -- there is the potential for a structural gap between you and your closest geographic peer? Just want to get a sense of how you think about the opportunity maybe beyond that 3 years and how it might play out.

Alan H. Shaw
President, CEO & Director

Chris, we've committed to industry competitive margins. And in '23, we overcame a lot. We made a lot of progress on our strategic plan. We enhanced safety, we improved service, we attracted new business, we overcame challenges. As we look into '24, it's really a focus on productivity. And we feel like we're going to be on that pathway of 100 to 150 basis points a year, particularly as we get into the second half of the year and lap some of these revenue comps. But we gave a 3-year outlook but that's not an endpoint. We have talked about continuous productivity improvement as one of the 3 components of our balanced strategy of safe service, continuous productivity improvement and smart growth.

Operator

Our next question comes from the line of Ken Hoexter with Bank of America.

Kenneth Scott Hoexter
BofA Securities, Research Division

I guess I'm still surprised by that time frame, right? It should seem like there's still moves that would get you that leverage a bit quicker, I guess, just compared to some moves we've seen some other rails. So maybe just was the impetus for some of these changes, the headcount, the 3-year OR targets, there's been some activist chatter in the market, is that something that's edging you behind in terms of making some of these changes? And then I guess, ultimately, the question is, is pricing accretive to margins in '24?

Alan H. Shaw
President, CEO & Director

Ken, our -- with us entering the third year of a freight recession, with the investments that we've made in safety and service that are delivering meaningful results, it's clear that our cost structure is too high for our revenue base and in 2024. And so we address service, we address safety, we addressed growth in '23. We did it in a responsible manner to protect our franchise and our shareholders. Now as we enter 2024, we've got a much more fluid network, much safer network, a network that is attracting growth, and it's a focus on productivity.

And so yes, we're looking at every cost out there. And we're looking at discretionary costs. We're looking at management costs. And we're focused on productivity, because it is a balanced plan.

I'll let Ed talk about price.

Claude E. Elkins
Executive VP & Chief Marketing Officer

Yes. We were successful in '23 on price, and in '24, we have a good price plan that's strong and really is going to produce value every quarter this year. So we feel good about where we are with price. And there's a couple of things that I'll add to that. We're feeling really good about where we are with our service trajectory at this point. We're hearing from customers that they appreciate the value

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that we're providing for them. And we're doing it at the facility level, going out and talking to customers focused on that first and final mile and how we add value. And that's going to produce value for us and for our shareholders all year long.

Kenneth Scott Hoexter
BofA Securities, Research Division

I appreciate it. And I know one question but I'm just trying to understand, are you saying then we get better margins in '24? Is that pricing outpacing that cost? I just -- sorry, just trying to understand the answer there, Ed.

Mark R. George
Executive VP & CFO

That's part of the equation. That's part of the equation, for sure.

Operator

Our next question comes from the line of Scott Group with Wolfe Research.

Scott H. Group
Wolfe Research, LLC

So Alan, you've been telling us for a little while now that maybe we'll see weaker decrementals at the trough but then we'll see better incrementals on the way back up. I think about Q4 where we started to see the way back up, we saw some pretty good volume growth, and the incremental margins were still really muted even with a nice fuel ag tailwind. So how do I think about why we didn't see it this quarter? And then maybe just going forward, you just said the cost structure is too high. I don't know that I heard that you're telling us that costs come down from here though. Maybe I misheard or do costs come down from here? And then I don't know, just to put it all together, Mark, sometimes you just give us some color on near-term OpEx and margin, how to think about Q1, that would be helpful.

Alan H. Shaw
President, CEO & Director

Yes, Scott. We had to overcome a lot in '23. And we made investments in a prudent manner to enhance safety, enhance service and attract growth, particularly in our most service-sensitive markets. And so we're -- with respect, we're putting proof points up on the board. As we moved through into the fourth quarter, we were still wrestling with a service product that was off plan, which adds complexity, adds variability and adds costs. We're operating in a really tough freight environment. And we were dealing with pretty healthy year-over-year inflation. And we're still lapping some difficult comps with respect to the fuel surcharge revenue and with respect to storage revenue, right?

Mark R. George
Executive VP & CFO

And mix.

Alan H. Shaw
President, CEO & Director

And mix. And so as we move into '24, those things are going to start to unwind themselves, right? We've got a much more fluid network. We're operating on plan. That will drive out our service recovery costs. And then after that, we're going to continue to iterate to our plan. That's going to help drive productivity. And we're going to attract new business. And as you noted, our strategy is all about outperforming during an up market. I don't see that in the next 6 months, when the economy does recover, it always does, when the freight market does recover, and it always does, we're going to be cold for growth.

Scott H. Group
Wolfe Research, LLC

Mark, any color on the OpEx, the OR Q1 again? I just -- I didn't -- I don't know that -- I asked, I mean, you said the cost structure is too high. Does it come down or not? I guess I'm not -- still not sure what the answer is.

Mark R. George
Executive VP & CFO

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So I think as you go into Q1, you're going to have some of the normal seasonality that has an impact on your OR. So I think you need to expect that the first half, Q1 in particular, is probably going to step back. But then we feel much better as we lap a lot of the headwinds that we've been talking about from this first half, the intermodal storage charges, some of the fuel price and some of the other RPU challenges we're having on coal price. I think as we get to that back half is where you're going to really start to see much stronger incrementals and drop-through.

Operator

Our next question comes from the line of Amit Mehrotra with Deutsche Bank.

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

I guess, Alan, if we look at the 3-year plan, I think if you ask every railroad in North America, they tell you that they also would expect to improve margins by 100 to 150 basis points a year from where we are today. So I guess the negative implication of that outlook is that you're not actually narrowing the gap. You're just improving your position from where you are but the gap actually stays intact. So I'd be curious to get your perspective on that.

And I think the cost structure is high, which is you're addressing that by taking these difficult actions with nonsalaried workers and I know that's a really difficult decision. But it seems also like -- when I look at the cost structure, it seems like the answer to something going wrong is growing as many resources at that problem as possible. If I look at materials expense or rent expense. And if I talk to any operating intensive railroad, their answer is you never really drown a problem with resources. That's the opposite of what you should do.

So I'm trying to understand the removal of the nonunion or the rationalization of the nonunion employees is one step in that direction. But are we having to rethink about how we actually operate the railroad day in and day at and how we respond to issues because it seems like that's kind of the root cause of the problem in terms of where the gap is today? Sorry for the long-winded question but I just want to get your perspective on that.

Alan H. Shaw
President, CEO & Director

What was the first part of your question?

Amit Singh Mehrotra
Deutsche Bank AG, Research Division

Well, just in terms of the -- yes, sure, Alan. The 3-year outlook, 100 to 150 basis points, every rail on the continent will think that, so you're not actually narrowing the gap. So that was the question.

Alan H. Shaw
President, CEO & Director

Well, that's our commitment. Our commitment is industry competitive margins and top-tier revenue and earnings growth. And we said we're going to do that through an economic cycle. We said we would have difficulty within the industry competitive margins during a trough in the freight market. And candidly, we didn't expect some of the incidents that occurred in 2023, the network disruptions, the Eastern Ohio incident, and a continuation of a very difficult truck market. We invested throughout 2023 for the long term -- in the long-term best interest of Norfolk Southern and our shareholders. And we improved service, we improved safety, volumes grew in the fourth quarter.

Now we can really narrow our focus, right? We can narrow our focus into productivity. And that's exactly what we're doing. And we're going to drive that by operating to the plan, a high degree of compliance to the plan. That will shed resources. That's going to shed a lot of the service recovery resources that you just referenced. As we get on plan, we'll continue to iterate the plan and look for additional ways to drive out complexity, drive out costs and improve balance.

Paul B. Duncan
Executive VP & COO

And just adding to what Alan said, as we think back to the fourth quarter, it was all about driving intermodal service, recognizing that the service sensitivity to that was going to directly drive growth of this railroad, which we did see. The shift in the layering on now is

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towards driving that discipline and rigor inside of our merchandise network. We recognize that is where our single biggest opportunity is.

Total T&E as a result of that essentially troughed in October. And we expect that we're going to see greater productivity as we continue to dial in our merchandise network, that's going to be a reduced number of recrews and all of the associated costs: taxis, hotels, [deadheading], overtime, car hire, equipment expense. We're going to see improved capacity in our merchandise network as cars per carload improves. So that's the flywheel impact that we're talking about.

So to your question about what is fundamentally changing moving forward, it's from where we are now moving forward, a direct focus on merchandise recognizing. That's our next single biggest lever for productivity.

Alan H. Shaw
President, CEO & Director

That's where 2/3 of our operating costs are.

Operator

Our next question comes from the line of Jon Chappell with Evercore ISI.

Jonathan B. Chappell
Evercore ISI Institutional Equities, Research Division

I hate to keep on the guidance a bit but I'm going to move up to the revenue line here. I'm just trying to understand the roughly 3%. I get that there's macro headwinds. I understand the first half may be difficult. But by the same token, you have incredibly easy volume comps given all the disruption from February until August. And Ed talked about the continuation of the pricing above inflation. So one would probably expect the volumes to be a little bit better than 3% just given the comparison. So are we saying that all-in yield may be down this year? Or is there just like a healthy element of conservatism that you're putting into the macro economy in the first half of the year that may be temping that number down?

Claude E. Elkins
Executive VP & Chief Marketing Officer

I think -- this is Ed, by the way. There is a lot of uncertainty around what's going to happen here in the first half of the year. I think the Street's baked a lot of expectations around Fed actions and we'll see where that goes. But frankly, you look at first quarter and we see a pretty sedate volume opportunities here in the first quarter and the recent weather events for the entire industry has kind of confirmed that. But then we see a steady progression of volume improvement throughout the year. And I think volume improvement will probably lead the parade, so to speak, in terms of revenue and yield improvement for us. But we're pretty confident we might be conservative around coal price, but that's I think the right thing to do for ourselves as well as for the rest of the industry.

Operator

Our next question comes from the line of Tom Wadewitz with UBS.

Thomas Richard Wadewitz
UBS Investment Bank, Research Division

I want to ask you one granular one and then kind of a higher-level one. So I guess on the granular question, for Paul, should we think about, with a fairly muted volume backdrop, that train starts would come down in '24? Or are you thinking kind of, hey, the schedule is set and we'll keep that where it is? And then the higher-level question, I think when investors look at Norfolk, they say, okay, there is a potential idiosyncratic opportunity to run the system better. Maybe that runs on its own regardless of freight market. But I don't know that that's clear. So should we look at it as more of a kind of idio improvement story? Or is this really a freight market, freight cycle leverage story, right? That it's really when the freight market improves, if that second half, is that's '25, then you're just really well positioned for that? So I think just trying to figure out what's really the right way to look at the Norfolk story.

Alan H. Shaw
President, CEO & Director

Why don't you address the first question?

Paul B. Duncan
Executive VP & COO

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Yes, absolutely, Tom. Thanks for the question. So we think about it not just as train starts but overall T&E productivity. It's all about getting the most from our crews. And we're going to see that improve through not only the -- what we've seen here over the past several weeks for improvements in network velocity but running more disciplined to plan and layer down initiatives. We know running more disciplined to plan is already starting to show itself in reductions in T&E expense. You've seen it in the other productivity measures from the slides.

We're going to make further iterations to the plan as we get more discipline, particularly in our merchandise network. And that's only going to drive improvements in GTMs per horsepower but also on the T&E side. We've got a number of initiatives beyond just running the plan more disciplined and seeing that cost come out, again, that we're layering on. We've got pool transitions taking place. So as we have gotten more fluid and more consistent, we have transitioned more short-pool runs to long-pool runs, again, because we've got greater consistency and velocity in the network, that has productivity benefits. We have put more towards assigned service from a T&E standpoint. That means we've got assigned crew pools and turns, that reduces hotels, van expenses, has a quality-of-life benefit.

We're going to roll out predictable work scheduling this year on our conductors -- or with our conductor, excuse me. More than 80% of our schedule -- our network is scheduled, meaning as we layer in predictable work scheduling, we will see a benefit in reductions in displacement time. We've got a number of board consolidation initiatives that are taking place. And we're driving accountabilities to run lean and to plan inside of our merchandise yard.

So that all translates into we're going to see train length on the merchandise side. We've got line of sight on some improvements we can make there, not only through further iterations of the plan. We've also got some investments planned this year in some of our major merch channels that are going to drive productivity and train length. Intermodal train length went up in Q4 as a direct result of us not only delivering great service, but customers rewarding us with business. And again, we're going to continue to work on that.

And from a bulk standpoint, you've heard us talk about the various longer-term initiatives we have with our customers to invest in facilities, particularly in our [indiscernible] network. Several elevators are investing. And we expect to really see the benefits as that -- those investments come to play.

Alan H. Shaw
President, CEO & Director

And Tom, your second question. As we've lapped -- gone through 2023, and we've made the necessary improvements in safety and service and attractive growth, we can really start to focus on productivity in our own plan and execution of that plan. That provides benefit as well. And then our whole strategy is about outperforming during the up cycle. Our franchise is built to outperform during the up cycle. You've seen us recover from network disruptions much faster than we have in the past. So there's a proof point as well. We're not calling when that up cycle occurs. But when it does, we do believe that we will outperform and we will attract new business with high incremental margins.

So it's improving our own operations and executability with the plans as we can now narrow our focus on really operate into the plan and driving efficiencies, and then participating and outperforming during the up cycle.

Operator

Our next question comes from the line of Brian Ossenbeck with JPMorgan.

Brian Patrick Ossenbeck
JPMorgan Chase & Co, Research Division

Just a quick follow-up for Paul. If you can just give us some sense in terms of how much of those productivity metrics you're talking about are actually independent of volume, I'm sure that would help. But how much do you have line of sight if volume stays flat or maybe doesn't recover in the back half? And then just to ask more broadly, do you think there's a structural margin gap that will always be here for this network versus some of your peers? I mean do you have roughly 10 percentage points more intermodal, more truck competitive, you can have shorter length of haul dynamics in international as well, lighter weight, more touches?

So I'd just be curious to hear if that's something you think about in the long term in terms of closing that gap that might be a hindrance, or if there's something I'm not thinking about from a productivity density perspective that could make that incorrect assumption.

Alan H. Shaw
President, CEO & Director

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Brian, each franchise has unique strengths. We have committed to top-tier revenue and top-tier earnings growth coupled with industry competitive margins. We're going to deliver that. We've got a franchise that faces the fastest-growing segments of the U.S. economy and a franchise that's poised for growth. We're entering the third year of a freight recession.

That will unwind. And when it does, the enhancements that we've made to safety, the enhancements that we've made to service, the ability to attract business in the fourth quarter in automotive and intermodal, which are our most service-sensitive markets, right, give us a pathway to success going forward and allow us to unlock our full potential. And Paul and his team and the entire executive team are intently focused on driving out cost inefficiencies and driving productivity.

Mark R. George
Executive VP & CFO

Let me just add real quick. This entire team recognizes that a margin gap exists today between where we are and where we should be. And we're focused intently on closing and narrowing that gap before we get to an area of talking about why any remaining gap exists. There's a lot of runway still for us organically and self-help.

Paul B. Duncan
Executive VP & COO

Yes. And the specific around how much is initiatives versus volume adjust, many of those initiatives that I spoke to are going to continue regardless of the volume environment. The iterations to the plan are always going to continue. But that is going to be the lever that is most sensitive to volume. But we're going to continue to drive train length. We're going to continue to drive crew productivity regardless of the volume environment.

Operator

Our next question comes from the line of Brandon Oglenski with Barclays.

Brandon Robert Oglenski
Barclays Bank PLC, Research Division

And I guess maybe the frustration from the investor side is that if we go back a couple of analyst meeting, and maybe even back to 2015, the mantra here has always been that we're trying to close the gap. But I guess, constructively, Paul or Ed, can you help us understand where you are in trip plan compliance with your customers? Because I think ultimately, it's consistency of service that matters, right? So what can you talk about what did you learn through changing the makeup rules through 2023? And where is the future on service to your customers? What are you seeing today?

Paul B. Duncan
Executive VP & COO

Well, let me start off, and I'd love to have Ed jump in here as well. From an intermodal perspective as we look at where we finished fourth quarter, we delivered the best intermodal service we have put across this railroad in several years. And customers rewarded us with volume as a result. We expect to maintain that level of service based on what we've heard from our customers is their expectation. From a merchandise standpoint, we continue to see improvements in merchandise trip plan compliance throughout the year.

To your point around the train maker pools, we said that we were going to recover after we had moved forward with those, meant to, again, drive greater safety and resiliency across our network. We feel very confident that we've seen merchandise trip line compliance continue to come up throughout the year, and we feel that we're very confident as we look at 2024, based on the further discipline that we are going to build and drive inside of our merchandise network.

Claude E. Elkins
Executive VP & Chief Marketing Officer

I'd offer a couple of proof points, just to think about that are recent. The first one is we have one of our very largest customers comment to us that, emerging from the weather events that just happened in the past year -- or excuse me, the past week, that we recovered better than just about anybody else. And we really take that to heart because they themselves are a broad survey of many other railroads. So we think that that's really important as a proof point for resilience. As we return back to plan faster and faster after inevitable events, that's going to define a large part of the value that we're offering customers.

Operator

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Our next question comes from the line of Justin Long with Stephens Inc.

Justin Trennon Long
Stephens Inc., Research Division

So for 2024, there are a lot of moving pieces that you've talked about. But when you put it all together, do you think you'll be within that targeted longer-term range of 100 to 150 basis points of annual improvement in the OR? And Mark, I think you and Alan both mentioned the interest expense headwind you'll have this year. I was wondering if you could help quantify that year-over-year headwind.

Mark R. George
Executive VP & CFO

Yes. Thanks, Justin. Let's be explicit with interest. We've got -- we ended 2023 with about $17.2 billion of outstanding debt. The effective interest rate is about 4.7%. So I would model about $210 million a quarter for interest expense on the go forward. We've essentially kind of prefunded that CSR acquisition. So that should be relatively steady within a couple of few million dollars per quarter of that. And as we look at the moving pieces, again, we've got some headwinds here in the first half. I think as volume starts to grow as we go from Q2 to Q3 and then into Q4, we should really start to see with the compares a pretty good improvement year-over-year.

So I don't see so much in the first quarter, certainly. I think there's a risk of regression there. But I think as we navigate the second quarter depending on volumes, but in particular, in the second half, is where you'll see most of the improvement. And look, I think that 100, 150 that we're talking about kind of on the go-forward, we should definitely be there in the back half. Whether it translates into a full year amount or not, I think, depends on a number of other factors.

Operator

Our next question comes from the line of Jason Seidl with TD Cowen.

Jason H. Seidl
TD Cowen, Research Division

I'll put the bat away for the horse that is guidance here and turn the attention a little bit to what you're seeing in terms of impacts from any diversions on the port side, whether they're from geopolitical events from the Panama Canal. And if you haven't seen them yet, do you expect to see them? And what sort of impact should we look for going forward?

Alan H. Shaw
President, CEO & Director

Ed, what do you hear from customers?

Claude E. Elkins
Executive VP & Chief Marketing Officer

We're talking to our customers a lot about this. It's a situation that has grown over time. We haven't seen any impact yet to our volumes. In fact, our East Coast port volumes continue to be remarkably strong. And we are hearing customers start to evaluate their West Coast options, and that makes sense given some rather unprecedented things that are going on. But regardless, the great thing about our network is we're well-positioned to pick up that volume growth, whether it comes in the East Coast or the West Coast. And I think we're going to be able to very ably serve our customers and satisfy their needs.

Jason H. Seidl
TD Cowen, Research Division

Ed, is there a preference on East Coast versus West Coast in the network?

Claude E. Elkins
Executive VP & Chief Marketing Officer

Well, there's all kinds of preferences. But no, we've got the network built for -- to take on volume, whether it comes through the East Coast or the West Coast. I think there's probably more intermodal conversion opportunity when it comes through the West Coast. But we've gotten very good at doing short-haul intermodal with our international customers.

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Alan H. Shaw
President, CEO & Director

Frankly, that's one of the benefits of our franchise, right? We got the most powerful intermodal franchise in the East, which serves 60% of the consumers. So no matter whatever comes in the East Coast or West Coast, we're going to handle it.

Operator

Our next question comes from the line of Allison Poliniak with Wells Fargo.

Allison Ann Marie Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

So with the focus on long-term growth, could you maybe talk to the growth investment embedded in CapEx? Is it higher, is it lower? And then with that longer-term margin road map, is there an offset embedded in that, given just sort of the ongoing investment in service that [indiscernible] is making? Just any thoughts there.

Alan H. Shaw
President, CEO & Director

Mark, do you want to talk about the capital program, please?

Mark R. George
Executive VP & CFO

Yes. The capital -- I mean, the capital guidance actually for '23, I think I mentioned in my prepared remarks that was going to be largely flat with 2022. And I would say that the mix within that, between reinvesting in the business and safety and resilience, it's about the same as what it was in '22, call it, about 60%, 65%, and the growth element to that is the balance, call it, 35%, and that's pretty consistent between the 2 years, Allison.

Second part of your question, again, I don't recall.

Allison Ann Marie Poliniak-Cusic
Wells Fargo Securities, LLC, Research Division

Yes. Just in that longer-term margin road map, obviously, you're investing in service. Is there sort of an offset embedded in that margin just given this ongoing investment, it just certainly doesn't end here. Just trying to think through that.

Alan H. Shaw
President, CEO & Director

Well, I know that a faster network is a less expensive network. So as we invest in service and we invest in resiliency, it translates to fewer recrews, fewer network disruptions, fewer -- less overtime, less equipment rents, improved fuel consumption and fuel efficiency. So yes, that's the part of our franchise -- or pardon me, of our strategy, right, is that balance between service productivity and growth, and they build on each other.

Paul B. Duncan
Executive VP & COO

The velocity piece plays into the growth.

Operator

Our next question comes from the line of Jordan Alliger with Goldman Sachs.

Jordan Robert Alliger
Goldman Sachs Group, Inc., Research Division

Just a couple of clarifications or make sure I understand. In terms of thinking about this year, in light of the -- you mentioned steadily increasing volume assumptions and then increasing incrementals, particularly in the second half and the year-over-year improvement in margin notably in the second half. I guess the question is, what needs to happen to do better than the 100 to 150, the longer-term target? I would imagine part of the plan for the back half of this year is probably to exceed that, I would think.

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And then secondarily, can you give a little more color around the use of cash this year? I think you said you're suspending the buyback but the interest expense is pretty high. So is debt reduction part of it? Because I think you also mentioned you want to get the liquidity ratios more in line. So maybe where do you hope to end the year on that front?

Mark R. George
Executive VP & CFO

Yes, Jordan, on the cash side, we've got the big CSR purchase here in March. We've gone outside of our preferred debt-to-EBITDA range at the very end of the year, in part because we've had to also fund these ballasting costs. So that will continue to consume some cash as well in 2024. And then we've got the CSR purchase in addition to that. There are no debt redemptions planned this year. So it's really an issue of operating cash, minus CapEx, gets you to free cash flow. And then in that free cash flow, we've got our CapEx budget, which is flat with last year as well as the CSR purchase.

From there, we don't expect to have remaining cash to do share repurchase. So as we go into 2025, we should be in a better track with EBITDA growth to start to have a more normal capital allocation cycle like we've experienced in the past.

Jordan Robert Alliger
Goldman Sachs Group, Inc., Research Division

And then just the first part.

Mark R. George
Executive VP & CFO

Yes, why don't you repeat the first part?

Jordan Robert Alliger
Goldman Sachs Group, Inc., Research Division

Yes. I mean, you've mentioned a few times that you expect steadily increasing volumes and steady increasing incrementals as we move through the year, with the second half seeing the lion's share, I suppose, of the margin improvement. So I guess I'm just curious, would the plan contemplate in excess of the 100 to 150 in the back half? And what needs to happen to do that? I assume it's volume, but...

Mark R. George
Executive VP & CFO

Yes. So Jordan, I think as you look at it, one thing that's going to happen on the cost side is the service costs that I laid out in my chart will come out. They may not come out as great in the first quarter, largely because of what we're doing to mitigate the cold weather but they're going to come out. And they're going to start coming out in the first quarter. And the plan is that most of those will start to release here in the second quarter, if not be completely gone. So that provides us some traction for sure.

A lot of the other fluidity and improvements that Paul mentioned will start to really take hold and provide traction where we actually think our T&E counts may end the year a little bit lower than where they started the year, which means you're taking on more volume and you're actually having perhaps fewer crews, that's embedded productivity right there. And then, of course, we're doing actions on the nonagreement side that will also yield some benefits.

So we feel really good about our back half and our margin profile. I think a little bit stronger revenue, we can absolutely outperform that 150 in the back half -- the 100 to 150 in the back half and possibly be there for the full year because of it.

Operator

Our next question comes from the line of Ravi Shanker with Morgan Stanley.

Ravi Shanker
Morgan Stanley, Research Division

Maybe just a high-level question here, and maybe going back to some of the previous questions asked and just tying it up. I mean, look, there's always a margin gap to your peers, and it's kind of easy to point to cost as a reason why. But you guys have been cutting costs for many years and you've taken a lot of resources down and you've done a lot to improve the service product. I think you have the lowest cost per carload of any of your peers. At what point is this not really a cost problem and it's more of a revenue problem and that needs the bulk of the resources addressing that rather than trying to take out more cost?

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Alan H. Shaw
President, CEO & Director

Look, it's a balanced approach, and we overcame a lot of Norfolk Southern specific headwinds in 2023. And we enter 2024 and with a safer network, a more fluid network and a network that is attracting business from our most service-sensitive customers. Once we get through this freight recession, and we will, we are poised for outperformance during the up cycle. That is the essence of our strategy. We're doing what we laid out at our Investor Day 14 months ago. And I'm proud of the way that we've overcome these obstacles in 2023 and set the stage for margin improvement in 2024, while protecting the best long-term interest of our shareholders and the Norfolk Southern franchise.

Mark R. George
Executive VP & CFO

Yes. Make no mistake, Ravi, this franchise, this network is built to handle a lot more volume but we have a lot of cost runway ahead of us. And that's what we're focused on right now and we're certainly going to welcome the revenue when it comes. And I think, again, that's going to drive the high incrementals at that point. Thank you.

Operator

Our next question comes from the line of David Vernon with Bernstein.

David Scott Vernon
Sanford C. Bernstein & Co., LLC., Research Division

Mark, on the topic of costs, I think there were some headlines last night about some headcount actions nonunion workforce. Is there a specific cost program in place with a quantifiable number that we can be thinking about in terms of pursuit of sort of the nonoperational costs as we kind of await the flywheel is starting to spin?

Mark R. George
Executive VP & CFO

Well, with regard to the nonagreement program, maybe I'm going to assume that's what you're referring to, we had mentioned about 7% was our target and that's going to yield over 300 people. And -- but I think the timing will probably start to take effect here in the second quarter, just the way the voluntary program works. So we'll start to see the cost relief take place here in the second quarter. And frankly, the savings amount will depend upon the mix of the folks that put their names in. So we certainly internally have a number in mind and we'll see where it settles after that. But we're going to -- but aside from that, there are other areas we're going to go after.

Again, we're not happy with our Purchased service spend. We were in a year of very, very difficult, challenging situation where we had to quickly get our network up and running again from a number of challenges, be it weather or accidents. So we've put a lot of money into quickly revamp -- using some outside services to quickly revamp our network on the mechanical side as well as engineering side. I would hope that those things start to really settle down. That's our focus, Paul and I, as well as even on the technology spend, where we've been using a lot more software as a service -- cloud-based services which show up in purchased services as opposed to CapEx. So that's been putting pressure on our Purchased services. But we've got to try to, again, put a lid on that growth.

And I will mention that can't discount inflation. Inflation in 2023 was well over 4% in our cost structure. As we go into 2024, I expect to see inflation maybe be half of that impact. So that's going to be another area of tailwind. So thanks for the question, David.

David Scott Vernon
Sanford C. Bernstein & Co., LLC., Research Division

That's helpful. And maybe just to squeeze one in here. On the CSR purchase. Obviously, you're going to be adding depreciation on the rent side. Is there any sort of like net benefit of owning that property versus just renting? Or is this just more about avoiding future lease payments?

Mark R. George
Executive VP & CFO

Yes. Look, I think the biggest issue is these costs could have quickly run away from us upon lease renewal. We did not control what the lease rate was going to be and we knew that would go to arbitration, and it could be a significant multiple of where we were. So it's

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really a benefit when you think about what it could be on the go forward, overall. There is some above-the-line benefits that we have in our depreciation today that lessen as well as the rent payment that goes away. But again, the interest burden and a pause on share repurchase provides a temporary hurdle for us.

All right. We've got it wrong. We've got another question before we wrap up here.

Operator

Our next question comes from the line of Walter Spracklin with RBC Capital Markets.

Walter Noel Spracklin
RBC Capital Markets, Research Division

So Alan, I just want to understand, again, at the end of the day here, you're talking about top tier volume growth at industry competitive margins. And when I look at industry competitive margins, say, consensus estimates for next year, it's in 60% to 61% range of OR for each of the -- each of your peers. And even if they do nothing and they don't move in their OR at all, and I just take the midpoint of your 100, 150, I mean that's 6 years before you can get to industry competitive margins. So is that what we're communicating here? Is that the setup? Or we just look -- am I looking at it the wrong way? Maybe you can help me there.

Alan H. Shaw
President, CEO & Director

That's -- we've given you a road map for the next 3 years on how we're going to narrow the gap with our peers with respect to margin. Our commitment is industry competitive margins. We've given you an outline of where we're headed based on where we see markets, if there's more lift in the freight market, then I fully expect that we're going to outperform because our investments in safety and service and our ability to attract growth in the fastest-growing markets, in the most service-sensitive markets are going to yield outsized benefits to Norfolk Southern and our shareholders during an up cycle. But we're not calling that yet.

Operator

Our final question this morning comes from the line of Bascome Majors with Susquehanna International Group.

Bascome Majors
Susquehanna Financial Group, LLLP, Research Division

Mark, you've been candid about the lumpy legal outflows and the insurance inflows on the cash flow front you're going to see from the Eastern Ohio incident and how that's going to be with you for some time here. But as we think about the cost structure, can you talk a little more about the ongoing operating cost increases that came from that, and how fully burdened what we saw in the fourth quarter was for that, and what may still be ahead? And I'm thinking things like insurance premiums or depreciation or say, maintenance or testing contracts but really anything you can share on the ongoing cost increase and how far along we are in that process, would be really helpful.

Mark R. George
Executive VP & CFO

So I'm interpreting the question beyond the East Palestine specific impacts that we reported and kind of the after-effects of it that are in the operating results. And I'll ask Paul to help. But clearly, there were impacts that consequential from East Palestine where we accelerated those train makeup rule changes that certainly had an impact in the second quarter and probably going into the third quarter. I think we've ingested that now. And that's no longer really providing any adverse impact.

We have installed more additional wayside detectors that we're carrying. We're doing more testing. We've got some more people monitoring our wayside deaths, et cetera. I wouldn't say that the incremental direct safety costs that come out of EP are consequential. And frankly, I think, ultimately, they're going to yield to better results in the go forward because we are running a safer railroad, we're having much better derailment experience in terms of less frequency as a result of some of the operational changes, including the makeup rules, have had. So overall, there's probably some -- for sure, some lingering incremental costs because we're doing things different but there will be a benefit longer term.

Paul, do you want to add anything?

Paul B. Duncan
Executive VP & COO

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Yes. I'll just add. Thanks, Mark. The proof is in the pudding that we saw a 42% reduction in our mainline accident rate this year. So as Alan described, part of our strategy has been to safely deliver reliable and resilient service, and 2023 was a challenging year for us but those are the types of things that are going to move the needle in driving towards we have a safer, more resilient product on the railroad. So yes, there are going to be some of those costs, as Mark just outlined very well that remain embedded with the offset being we're going to see and deliver a safer product for our customers and through the communities that we serve.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Shaw for final comments.

Alan H. Shaw
President, CEO & Director

Thank you for joining us today.

Operator
Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.

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