

University of Louisville

Burlington Northern Case Analysis

Mahamud Osman

CIS-410-50

January 29, 2022

Mission Statement

Burlington Northern is a railroad logistics and distribution company that delivers services to customers at agreeable prices through cost leadership.

Stakeholders

The stakeholders of Burlington Northern include 4 major stakeholders who are the customers, employees, owners, and communities.

Customers - The customers rely on Burlington Northern that their service will meet expectations. They do business due to the fact they will be receiving the best service with a commitment of on-time delivery, damage-free and precise information regarding shipments and transportation.

Employees- The employees rely that they will be ensured and safe in their work environment along with agreed upon compensation.

Owners- Owners expect compensation in return for investment greater than the cost of capital. This also includes individuals that own stocks of Burlington Northern.

Communities- The community relies on Burlington Northern to follow legal and ethical standards put in place to protect the community along with the services provided. (Our People)

Burlington Northern's Background

Burlington Northern started in 1970 with the combination of 4 additional railroads. This created an organization with an expansive railroad system that enjoys substantial natural

resources such as land with minerals, timber, oil, and gas. 19 years later (1989) after the start of Burlington Northern, 800 trains per day utilized the routes with \$6,146 million worth of assets. That same year the organization generated \$4,606 million of revenue and \$242 million of net income. The organization is headquartered in Ft. Worth, Texas which is the location of the CEO. The 2 other headquartered cities are Overland Park, Kansas and St. Paul, Minnesota. Burlington Northern enjoys revenue from 7 primary segments in the order of coal, agricultural commodities, industrial products, intermodal, forest products, food and consumer products, and automotive products.

Generic Strategy

Burlington Northern, leading the market share, operates in a cost leadership strategy consisting of trying to produce for the least amount of resources. This is how the organization strives to achieve and maintain competitive advantage over competitors and future threats. The organization prioritizes product cost and services efficiency to increase their revenue and profits. Burlington Northern takes advantage of Michael Porter's generic strategies that states that "firms with high market share were successful because they pursued a cost leadership strategy (Ritika Tanwar)." This strategy demands consistent search for reductions in the entire business.

Porter's Five Forces

This explores the key factors that determine and predict potential opportunities and risks in an organization.

Competitive Rivalry - Burlington Northern owns a huge market share with hardly any competitive rivals. The interindustry competition of Burlington Northern for coal were other railroads, especially the Union Pacific (UP). "UP had made substantial investments in heavy-

duty double track and in new technology, fuel-efficient engines for carrying coal. (Cash & Freid)” Although UP is one of the competition Burlington Northern are set to take an even greater advantage with ARES (Advanced Railroad Electronics System).

Threat of New Entrants - Burlington Northern has a low threat of new entrants. This comes from the investment in material and labor necessary to create this business, it can be very costly before becoming profitable. This barrier is known as asset specificity. Any new eager and enthusiastic organization will have Burlington and other railroads working aggressively to defend and keep market share from new threats.

Threats of Substitutes – The substitute options for Burlington Northern do not seem to be too high. Two substitutes are trucking companies and airplanes. But trucking and airplane services do not seem much interested in delivering coal because coal is very heavy, and they do not have incentive to deliver it. If clients are willing to pay more for coal that will arrive sooner for a more expensive price, then a true threat will exist. Trucking and airplanes prefer the delivery of lighter objects that customers want quicker for a higher but agreeable price. This also allows trucking companies and airplanes to make more deliveries for a single trip.

Bargaining Power of Suppliers - The supplier power of Burlington Northern is high as there are not too many railroad companies producing as much service as they are. This is a reason that Burlington Northern can raise prices without affecting demand. (Five Forces) This only works if the price of competitors is not a dramatic difference. Also, it is railroading that transports most of the coal.

Bargaining Power of Customers - The customer's bargaining power is average. The customer's main concern is to receive their products at an agreeable price and acceptable condition. The

reason for this is because the customers are price sensitive and there is little differentiation between services (Five Forces). The only issue here is that customers do not have too many alternative options. This is directed from the other service provider being UP, customers will not hesitate to switch their supplier if UP improves through lower pricing and other assurance.

Organizational Structure

The organizational structure of Burlington Northern is based on the environment. The organization does an excellent job to deploy assets in a complex market to achieve organizational goals. (Module 3) The organization operates in a functional structure that can be viewed in exhibit 3 Burlington Northern Organization Chart (Cash & Fried). This is appropriate for an organization like Burlington Northern because it allows for easy scalability, specialization, and a straightforward way to focus on specific tasks. The organization headquartered their operations and staff into 3 cities. These cities group the firm into corporate functions, operation departments and additional corporate functions. The separating of the headquarters and branches justifies the functional organizational structure.

The challenge

The changes of Burlington Northern and other railroad companies are service and capital intensity. They are working to improve the service they offer with less operation cost. They originally offered service to highly service-sensitive segments such as carrying passengers and other products. This has come to a stop as passengers would prefer taking alternative options as it is more convenient for a decent price. Other service-sensitives segments such as e-commerce (electronic commerce) customers prefer faster delivery provided through airplanes and trucks companies. Burlington Northern looks to improve services to retrieve potential segments while

maintaining their current segments. They look to improve service to increase volume at the expense of decreasing the volume of other rail carriers. An improved service will also allow for an increase in prices while customers are willing to continue their services. Another challenge is improving the utilization of assets. (Cash & Fried).

Solutions

There are two projects that are set to help improve services. One of the options that is initialized by Burlington Northern is ARES and the alternative being Advanced Train Control System (ATRC). The ATRC is being developed by members of Association of American Railroads (AAR). While ATRC will be developed to have better control over trains, ARES will be responsible for the entire railroad operations. When looking from that standpoint ARES offers the potential of the best improved services. ARES being invested by Burlington Northern is a lot more expensive than the latter option. While ATRC will take a longer time for development, its predicted results seem more realistic. On the other hand, ARES's assessment and potential benefits seem more optimistic than realistic from the perspective of Burlington Northern executives.

My recommendation

I would recommend further examination into the ARES proposal. There needs to be a list of all feasible options. There should also be outside audits of the ARES proposal as the executives suggested. This will allow non-bias options from other experts and substitute research. After the additional research of SRI International (formally Stanford Research Institute) and the new assessments are like the assessment of ARES, there will be a stronger consideration of the ARES proposal. Things to consider are less expensive technology that will offer improvements to our

challenges. The most promising solution is to look at the ARES assessment and compare it with the assessment of SRI. After comparing the two take the similarities as the most likely outcome. Look over to see which aspects of the assessment will provide the greatest service improvement, allow for future increase in volume and improve utilization of assets while keeping investment costs lower. Take these aspects and create a new proposal for the project.

Work Cited

IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 15, Issue 1 (Nov. - Dec. 2013), PP 11-17 www.iosrjournals.org

Tanwar, Ritika. "Porter's Generic Competitive Strategies." IOSR Journal of Business and Management 15.1 (2013): 11-17. Web

Cash, James I., Robert G. Eccles, and Nitin Nohria. Building the Information-Age Organization: Structure, Control, and Information Technology (3rd ed.). Chicago: Richard D Irwin, Inc., 1994. Course Pack. Print.

ISBN Search, <https://isbnsearch.org/>

"Our People." BNSF Railway, <https://www.bnsf.com/about-bnsf/our-people/index.page>.

CIS410-50, module 3, course lecture