Case 1: Burlington Northern

Mission Statement

Burlington Northern is an organization that provides railroad services with a vast rail system

and run business segments including coal, agricultural commodities, industrial products,

intermodal, forest products, food and consumer products, and automotive products, using their

own railroads and trucks for deliveries.

Generic Strategy

Burlington Northern adapted the Cost Leadership strategy. This organization was very careful

about their expenditure and tries to limit the cost as must as they could. A good dispatcher

could only focus on and expedite five to seven train while in Burlington a dispatcher was

responsible for 20 or 30 trains operation. Burlington Northern had only a half a dozen industrial

engineers while UPS hired 1,200 of them at the time. All of these actions were aiming at a low

cost in exchange of higher income.

Organizational structure

Burlington Northern follows a functional organization strategy. They operate their business in

three different cities for different functions: corporate functions like finance, strategic planning,

marketing, and labor relations are carried out in Ft. Worth, Texas; operation department is in

Overland Park, Kansas; Additional functions like Information System Service is in St. Paul, Minnesota.

Porter's Five Forces

Competitive Rivalry: Burlington's biggest competitor in coal was other railroad, such as Union Pacific who made a big investment in new technology to carry coal more efficiently. UPS's high speed delivery service also was a big threat of losing current customers. Truck delivery's flexibility reduced the railroad compactivity.

Threats of New Entrants: With deregulation of both trucking and industries in 1980, giving trucks greater freedom in setting rate and entering market. Similar freedom was also given to railroads, and railroads could own their own forms of transportation. These changes would lead new entrants to enter the market more easily. Business segments like agricultural commodities, industrial products, intermodal, forest products, food and consumer products did not have a high entrance bar to the industry.

Threat of Substitutes: Burlington's business range is large, but substitutes are not hard to find on the market. People can use natural gas, electricity, or solar power instead of coal; Demand for grain can always fluctuate, can easily be replaced by rice, corn, wheat and so on. Customers can also switch to river canal or airplanes instead of railroad transportation.

Bargaining Power of Suppliers: Burlington's coal originated in the Power River Basin, and they invested build lines to serve the shipment. In this sense, they have a high supplier power over coal. Agricultural commodities had less supplier power compared to coal.

Bargaining power of Customers: their customer power was lower than customers of other business segments since Burlington Northern had a stable supply of coal and its own reliable shipment transportation. However, a good variety of substitutes customers can choose from at the same time increased their buyer's power.

Problems and Stakeholders

Burlington Northern had been lacking long-term strategy provided by the leadership. Customers needs were not analyzed carefully, they just dealt with problems from problems. It was not operating in a proactive manner, mostly they reacted to the problems they realized.

Management: Throughout the whole case, I did not see management created a long-term strategy with their insights. As soon as they had new discoveries, they carried out short-term plan until new problems appeared. When they realized that debt repayment could increase investment. They emphasized the urgency of debt repayment, which resulted in tight funds investment. ARES was a great project which could have benefited the organization more than it did due to lacking insights from management. ARES project progressed slowly without a long-term development strategy and a clear specific goal. If they already had a clear overall goal to make money for the organization, then they need to think of specific goals like "cost-effective purchasing, employing good people, high technology, producing quality products, selling quality products, capturing market share" (Goldratt).

ARES project leadership and R&D: ARES's design and implementation lasted from 1981 to 1990. Senior leadership did not have enough faith on the ARES project and R&D did not have

enough guidance. From initiation to design, to forming management groups, to approving funds, to testing, to installation, took about 10 years.

Stockholders: they were attracted by seeing their debts paying down, instead of seeing the long-term potential of Burlington Norther's a wide range of business segments. Repaying debt was just one aspect of reflecting the organization was doing well. If stockholders failed to see the real potential, they would not be long-term investors and could turn to invest in other organizations easily.

Employees: There had been many changes happened within the organization and they were not trained and not communicated with changes for better adaptations. Employees could only passively follow new plans.

Customers: They have the rights and abilities to compare and choose who they buy from. They can either buy from Burlington Northern or their competitors. Burlington Northern did not have one differentiate product that can keep their customers for long term.

Alternatives and Impacts on stakeholders

Alternatives 1: Switch to differentiate strategy, improve the ARES management, add IT department to their functional structure

Cost Leadership strategy had too many limitations on operations and investment. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low-cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share (Tanwar). Adding an IT department

and having a CIO to watch all the technical activities, which is also a way to improve ARES management.

Impacts:

Management would have clearer plans with the new strategy, changing their focus from squeezing cost to support development of unique products and services. **ARES project leadership and R&D** would have better leads from a newly added IT department. Better strategies could attract more **stockholders** to invest. **Employees** can be specialized for analyzing, development and support. **Customers** would have better options from BN.

Alternatives 2: Buy Software package instead of sticking to ARES and separate business segments. A lot of time, effort and fund spent on ARES yet got less out from it than it should have, buying software package may be easier on employees and management. If a job can be specifically enough, a special application can optimize functions in that particular area (Kalakota).

Impacts:

Management of each business segment would have more flexibilities for operation and decide what kind of software would meet their business needs most. **ARES project leadership and R&D** might be dismissed. Without continuous investment for ARES, lower cost and debts may attract **stockholders** within short term. **Employees** could focus on the business segment they belong to. **Customers** may only stick with a few of their products/service since their separate operation.

Alternatives 3: Stay in cost strategy, refine the strategy to match business needs. This is the option that takes the least effort from management yet can be the least effective and employees would not have to go through big changes within the organization.

Impacts:

Management would just need to be more careful with their decision making. **ARES project leadership and R&D** would need to shorten their development life circle. **Stockholders** might not stick with BN for little change and improvement. **Employees** could work the way the work before but would not see a brighter future. **Customers** may choose to go to other providers for same products and services.

Selected Alternative and Conclusion

I would select the alternative 1 - switch to differentiate strategy and improve the ARES.

This would be a revolutionary change for Burlington Northern but its high income from continuing operations were high enough to support switching from cost leadership to differentiate strategy. Differentiate is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers (Tanwar). Each Burlington Northern's business segment alone could not make it stand out in the market, but with a large variety of products and reliable shipping service is enough for differentiate strategy. With serious appraisals from professionals, it was confirmed that ARES offers many benefits to reach Burlington Northern's goal, improving the ARES development process and leadership would help with matching their own business needs. Adding an IT department and a CIO to lead the

technical activities, provide more directions and motivations to the technical teams. Within the IT department, employees with specialized duties have clearer directions.

The reasons that I don't pick the other 2 alternatives I came up with are as below: for alternative 2, a company that buys packaged software must be careful to differentiate between application support and takeover (Kalakota). So, I would say sticking to ARES is a better approach; for alternative 3, it may help the organization survive but it would not be enough to help it grow as big as it could have. One of the Major challenges facing many modern organizations is to replace this kind of thinking with fresh ideas and approaches (Morgan).

In conclusion, differentiate strategy, improving the ARES and adding IT department to the organization structure are the best approach for Burlington Northern to innovate to catch up with competitors and gain more market share.

Works Cited

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Kalakota, R. (2001). *e-Business 2.0.*

Morgan, G. (2006). *Images of organization.*

Tanwar. (2013). Porter's Generic Competitive Strategies.