

Burlington Northern: The ARES Decision

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1. Executive Summary

Burlington Northern is faced stiff competition causing it to lose some market share and hence reduce profits. Decision makers are faced with the questions on how they could better compete to increase their market share and net profits. They must decide on how much money will the company be willing to spend on a solution to get the best benefit to risk ratio.

2. Competitive analysis

Burlington Northern is one of the largest railroad companies with vast amounts of resources such as land holdings containing timber, minerals, and oil and gas along with a vast network of trains that cover 200,000 train-miles per day and generate several billion dollars in revenue. The company provides transportation via trains for businesses that want their stock of coal, grain, agricultural commodities, industrial products extra moved (Cash 1). As a railroad, primary advantage that Burlington Northern has is cost as railroads can move large quantities at low prices. Company had relatively low amount of competition as rates were regulated by the government and cost of entry was incredibly high.

But the environment is changing around the company with deregulation of railroad and the trucking industry which produces more competition for the company. Deregulation is causing lower trucking rates that have potential to go lower with future deregulation allowing for trucks to be heavier and longer. But trucks have carved off their own segments solidly and even though railroads want to compete in them, they can't (Barker 7). The primary competition is coming from other railroad companies instead of the trucking industry as they are directing prices down.

As a company in an industry with high cost of entry, the best strategy for Burlington Northern is to focus on cost leadership and lower their variable cost as much as possible because the company has already spent a lot on setting up the railroads and have labor that will need to be paid regardless. For the company to be successful, they must work more efficiently, i.e. to move as much as load as possible in each time. There are a lot of areas that need to be looked at and the efficiency of the system as whole need to improved. Burlington Northern is set up as machine where different parts should work together to perform a straightforward task of delivering goods, in a stable environment with few changes. According to Morgan, Burlington Northern could be very successful as company based on machinist view if they can improve precision (Morgan 27). The company is split up into regions that are controlled by dispatchers, who are responsible for directing trains, and scheduling maintenance for crews to go the section of the track that needed maintenance and repair. This job is made more difficult because the dispatcher can only see the section of the track in their territory which means they are unaware of any changes in neighboring territories that may affect their region. Dispatchers also have to spend considerable amount of time trying to establish communication with the crews and trains and on top of that maintenance crews are only allowed to work if dispatcher is certain that no train would be on that section of the track which is difficult since train arrivals can be predicted within a 30-45 minute window (Cash 7). Further inefficiencies can be noted when scheduling trains, as train might be few minutes late and conductor would round it up to the next 15 minutes which caused discrepancies in the reports received by managers who must use these reports to make business decisions

3. The Stakeholders

- a. **Burlington Northern:** The company, including the stockholders, is on the major stakeholders. Effectiveness of the solution for the problem facing the company would decide the fate of the company. If the solution is not effective in resolving the problem, the company might not be able to compete, and might go out of business. On the other hand, a very effective solution would allow company to be more profitable and allow it to control the market that will result in higher income for both the company, and the stock holders.
- b. **Burlington Northern Employees:** The employees have a very important stake in the company as a successful company could result in raises where as an unsuccessful company would result in job loss.
- c. **Suppliers:** Companies that provide parts for the Burlington Northern Equipment have a stake in the success of the company as it would affect their income if the company were to go under or be successful and expand to other regions.
- d. **Customers:** Customers are at stake as a potential solution would allow Burlington Northern to transport more with lower costs which would end up causing prices to drop for the customer too. On the other hand, market without Burlington Northier might result in increased prices due to reduction in competitive forces.

4. The Alternatives

- a. **Do nothing:** This would be the default decision for the company as the executives could decide to continue towards the direction that the company is

going and see where that leads. The company has survived so far and might be able to continue to survive without implementation of any changes. This would also save a lot of cash as company would not have to spend \$360 million for the new system. This option will keep everything as it is for all stake holders as nothing will change.

- b. Fund the implementation of ARES system across the company:** ARES is coming to be the best option that Burlington Northern has to overcoming the inefficiencies in their organization as the system aims to reduce inefficiencies in the system as a whole. The system would allow the dispatchers to see exactly where the trains are down to few feet and let them make better decisions in terms of which trains should be allowed to use part of the track and when to schedule maintenance. This would cut down on the time the trains and maintenance crew have to wait. The track in terms of Burlington northern is a bottleneck resources which is defined as any resource whose capacity is equal to or less than the demand placed upon it (Goldratt, 145). Burlington Northern could have multiple trains that have to wait on the same section of the track which is being repaired by the maintenance crew, making it a bottle neck. The deliveries by trains crossing that section can only be as fast the specific bottleneck section permits. ARES would dispatchers to better control the flow through the identified bottlenecks and thus increasing capacity and efficiency of the complete organization. These benefits would come at a great cost and risk as

there are no guarantees that the system will be successful and accomplish the desired goals.

- c. **Fund the implementation of ARES in different regions:** Final option for the company is to fund implementation of ARES in few regions to test functionality and success before spending huge amount of resources on equipment that need to be installed on every train. This would greatly reduce the cost of the system along with the risk. Company would only lose the money invested in the research in and implementation in those regions.

5. The Recommendation

The recommended option for the company is to implement the system on certain tracks that join multiple regions in a way that mimics a miniature sized version of the organization, which would allow managers to check exactly how successful the system is. A successful system would increase the capacity on those tracks and hence allow more goods to be moved. If the ARES does not show any improvements, it would allow researchers to have better understanding on why the system failed and what can be done to improve it if possible.

Works Cited

- Cash, et. al. Building the Information Age Organization
- Goldratt, E. The Goal
- Morgan, Gareth. Images of Organization