Cn case study

Business

Executive Summary: My decision as the President and CEO of CN, Hunter E. Harrison, is to continue with our strategic focus on continuing to improve productivity and customer service along with a new directive moving forward to continue to grow our sales, profits, cash flow and market value.

CN will implement a new strategic focus to expand the share of rail traffic in North America by directing overseas traffic flows on to our network.

In order to grow with expansion possibilities in North America being limited and the growth in NAFTA trade declining, CN requires a solid strategy to capture the growing importance of Asian markets. CN will invest and/or partner in international logistics as a freight forwarder intermediary to assist in capturing the growing Asian trade market with North America to ensure the traffic is on our network. CN has become very successful since the privatization and deregulation in order to take advantage of the growing demand due to the North American Free Trade Agreement.

As a private company, we have successfully become the only North American transcontinental railroad and the largest railroad in Canada. We serve major ports on the Atlantic and Pacific coasts, the Great Lakes in Canada and also the ports of New Orleans and Mobile on the Gulf of Mexico.

The new CN network today also serves every major metropolitan area in Canada as well as 10+ major rail hubs in the United States. CN is a true North American railroad with a clear competitive advantage over competitors as CN provides a single-line service between facilities in Canada, United States and Mexico.

This network is built to handle the additional traffic that can be generated from the increasing Asian market that CN's intermediaries in international logistics will secure to flow through North America. Immediate Issue and Secondary Issues with Impact Analysis: CN has overcome great challenges and improvements within the rail industry in North America due to the privatization of the company, deregulation of the rail industry in Canada and the North American Free Trade Agreement between Canada Mexico and the United States over the past ten years.

CN now needs to determine how to continue to grow their revenue with expansion possibilities in North America being limited and the growth in NAFTA trade is declining.

If CN focuses to grow its revenues with their current NAFTA strategy, they will have to build costly rail lines further south as expansions in North America are limited as they have to get approval from regulatory agencies in both Canada and the U. S. for cross-border mergers and acquisitions. CN already had a strategic plan that was halted by the Surface Transportation Board such as the merger they tried with the BNSF.

CN needs to implement a new strategy to continue with their success and to improve market share.

The growth in NAFTA trade is declining and there is now a growing importance with the Asian markets. CN can consider expanding internationally and acquire or build railroads abroad and apply their North American strategy to make them highly effective and efficient or CN can maintain their North American focus and aim to increase its share of the market by directing more of the overseas traffic flows onto its network.

Environmental and Root Cause Analysis:

CN is limited to future growth in North America expansion due to the Surface Transportation Board new merger rules that make it more difficult to realize large-scale mergers. CN NAFTA trade flows are established as CN has already made sound acquisitions and marketing alliances to meet trans-border links throughout Canada, United States and Mexico that the regulatory bodies would allow. CN has already a marketing alliance with KCS railway which controls TFM, the Mexican railway so as long as that relationship stays solid, there is no need for CN to expand its physical network to Mexico.

In North America our government institutions are not as well integrated at the supranational level like in Europe.

NAFTA is declining and limited as a regional integration arrangement. CN deals with both regulatory agencies in the US and Canada for safety and security, cross-border mergers and acquisitions, where there is an absence of political integration and harmonization so CN must keep their identity as both an American and Canadian company despite their integrated North American structure and operations.

There is a rise in demand for Asian trade due to lower total costs compared to the costs of a North American product. CN wants to increase revenue and profits by participating in this market transporting goods in and out the Asia and North American markets. If CN were to expand internationally with rail lines and operate like their North American network there are many factors to consider such as government regulations, costs, infrastructure and technology. The Asian Development Bank's share of total lending for transportation infrastructure has been rising with relatively large programs in China and Southeast Asia.

China, Mexico and parts of Southeast Asia, in particular, are quickly expanding or enhancing road and rail infrastructure, supporting rapid growth in their respective economies. China's railway system has been in decline, but leadership has realized the need to upgrade the rail system in order to connect the less developed, but resource rich, northern and western parts of the economy with more prosperous manufacturing centers in the East. This will foster development outside the coastal provinces. Public efforts are being made to introduce market mechanisms and competition and to invest in improving and expanding the rail network.

These investments are lowering transportation costs by reducing travel times and making service more reliable. There also needs to be improvements to be able to use modern communications to become a participant in the growing international markets.

Alternatives or Options with Pros and Cons: 1)CN can continue to improve their customer service by continuing to improve operations with providing lower prices and high-quality service that is reliable. CN does need to emphasize on improving transit reliability through more effective scheduling of shipments, rather than just scheduling trains.

Now CN customers' can place one phone call to move goods from Mexico into Canada with CN's expansion southward which does provide economies of scale as well as speed since the trains can now travel longer without interruptions for transferring cars or goods to another carrier's network. 2)An operational improvement is for CN to operate in one ERP system in order to schedule, invoice, trace, etc. in which they can always know where the shipment is no matter the rail line it is on and where one contact can update a customer inquiry without having to login different systems or calling various service representatives along the network.

CN must invest in technology and remain a leader in using information technology to improve their operating efficiency and effectiveness in order to attract an increasing share of the North American market.

CN has operating rights on many rail lines from East to West coast to the South where different systems are used. It will be costly to initially setup with development and training but the benefits will differently improve service information for CN and their customers. 3)CN can expand by building railroads in Latin America and apply its North American know-how to make them highly efficient and effective.

But, in order to do this, CN would need to consider several entry criteria: cost effectiveness, demand growth, competition, industry consolidation, quality of the infrastructure, government regulation, country risk, etc. CN can review further options to build alliances or to merge & acquire Latin rail lines but, they could face the same challenges with rail companies in Latin America as they did before they were a public company and also encounter blocks from government authorities.

4)CN can maintain their focus and aim to increase its share of the market by directing more of the overseas traffic flows onto their existing network.

For goods that are destined to the United States CN could compete to have them arrive in Vancouver, Prince Rupert, Halifax, or Montreal and then be transported to anywhere in North America via CN’s network rather than arrive in Long Beach or New York and be transported anywhere in the U. S. via a competitor’s network. CN can offer competitive rates and improved service as traffic will flow on a single line from port to destination. CN is a transportation company that already offers integrated transportation services: rail, intermodal, trucking, freight forwarding, warehousing and distribution.

)CN can become an international intermediary and open offices in Asia/China to assist directing goods coming from and going to Asia/China onto its network. CN can offer services like a freight forwarder improving customer service in order to act as a one-stop shop for transatlantic shippers. This option will assist in a new strategic goal to feed CN’s North American network with overseas freight and grow its market share. The best option to enter quickly is to invest in, partner with or buy successful and developed offices currently in operation compared to starting from scratch.

To recruit and set up offices from scratch would be very timely and expertise requirements overseas could be hard to find immediately.

6)CN could expand overseas with buying and/or investing in small rail lines that feed into major ports in order to feed the North American inbound and outbound traffic on their lines. Road and rail systems are generally comprehensive in developed densely populated economies; they tend to be underdeveloped in the less developed countries within Southeast Asia, Latin

America and China. A key constraint is the lack of financial resources for expensive infrastructure projects. Recommendation:

As the President and CEO of CN, I recommend the future of CN to grow our revenues is to expand the services we offer to customers by opening offices in Asias' main ports to supply international intermediary services so that we can direct more of the overseas traffic flows onto our networks throughout North America to increase our share of the international market. This means that goods destined to North America could arrive to Vancouver, Prince Rupert, Halifax or Montreal and then be transported anywhere in North America via CN's network rather than arrive in Long Beach or New York and then be transported anywhere in the U.

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via a competitor's network. CN will open offices in China and India then upon success with this service we can review opening additional offices in Europe, East Asia and the Netherlands. This new strategic goal will definitely grow our market share by feeding CN's North American network. Implementation: The first step for CN is to invest into a new ERP system that can manage all the networks traffic information no matter the line the shipment is on or the stage that the shipment is at.

Currently there are various systems for different sections of the network throughout North America.

When a customer service representative is contacted, they need to access all the information at that time for the customers' shipment. This will be even more pertinent with branching into freight forwarding for international shipments coming onto the North American network. The second step is to securely invest in or partner with a successful intermediary in international logistics to open offices in China and India where overseas traffic is generated from going into North America.

These offices can act as a freight forwarder and customs brokerage servicer where they handle all the logistical aspects of the transaction. CN will now provide one-stop shopping for overseas containers to and from the North American network. The third step is to review the success after one full year in operation for the international offices in China and India to determine whether additional offices should be opened in other parts of the world to assist in feeding CN's North American network and grow even further its market share.

If these offices are securing an additional 10% of the overseas traffic with customer satisfaction, it would be beneficial to open offices in Europe, Brazil, East Asia or even Latin America. Monitor and Control: CN can measure the amount of increased traffic flow on the North American network. Currently in 2004 CN monitored that 20% of the traffic flow was generated from overseas. Each office opened will be monitored to measure the additional amount of traffic being generated to move through our network and will continue to operate after one year upon securing a minimum of 10% of the North American overseas traffic.

Customer surveys (Exhibit 1) will also be completed for the overseas traffic to rate the intermediary services that the CN international offices supply right to delivery. CN will need to maintain a 90% carrier satisfaction rate in order to maintain the overseas traffic acting as a one-stop shop for transatlantic shippers.

The surveys will be used to improve any areas that are scored below 90% in the satisfaction rating so that we can supply confidence to a customer using our service.