

An Innovative Business Model for the Freight Railway

James Drogan
IBM

Investors see railways as a poor game. Over the last three years Wall Street has demonstrated a lack of confidence in the railways, marking their shares down by 18 percent against a 35 percent increase in value for the Dow Jones Industrial Average.

Shippers have demonstrated their dissatisfaction with the performance of the railways by moving business to trucks. Strong stands taken by such organizations as the Alliance for Rail Competition underscore this customer dissatisfaction.

There are actions the railroads can take to deliver improved customer satisfaction which will result in improved performance and, presumably, higher shareholder value.

A railway needs to see itself as an integrator of physical distribution channels providing value to customers. The objective should be to use this value creation to become first or second in share of customer spending in the markets the railway chooses to serve. Measurement of revenue ton-miles is no longer adequate as a basis for assessing performance. What counts is cash in hand.

Railways need to clearly understand what shapes the views of their constituencies (shippers and investors) and tune their actions and innovations to evoke the response desired from these two principals.

The argument here is for a fundamental redefinition of what railroads are all about.

- That railways transition from moving shipments and managing assets to the movement of customer value. The next action to be taken by the railway should be a function of value of the action to the customer and the value of the customer to the railway.
- A recognition that even good customers go out of business. A focus on customer service should become a focus on customer success.

Without senior management defining and institutionalizing a new culture that is inclusive of all parties, based upon the principle of maximum mutual value to these parties, and realizes and takes advantage of the dynamics in the marketplace, the transition will, at best, be only partially realized, and, at worst, be a consumer of hope, opportunity, and the energies of skilled people.

Competitive differentiation is about implementing management initiatives faster than the competition. These initiatives are the product of people and implemented by people. There is no automatic pilot that, in the absence of good people well led, will insure success.

Good people know themselves and the world in which they exist. They desire challenge which, when met, leads to reward, growth and, for want of a better word, fun. If the culture doesn't provide a basis for this, they will go elsewhere.

Culture and people, combining within the context of the railway, are not enough. If the key constituencies of the railway do not see, understand and appreciate in a positive way the change, then little to no change in the intercorporate relationships will occur. As a result, substantial new mutual value is unlikely to be produced.

The key constituencies must be included in the change management program.

Change is required throughout the business, and needs to be considered in context. A significant investment in information technology, for example, without a corresponding significant investment in people and processes, should raise an alarm.

This transition requires that the railway be willing to change everything about itself. If the railway continues to think the way it has always thought, it will continue to get less and less of what it always got.

Railways are, by nature, information intensive and have become, especially at the level of a major carrier, absolutely dependent upon information technology. Failure of information technology to support a core process can immediately cause the halt of business. In some cases, there is no manual recovery possible.

The transition demands a new business system which will necessitate a new approach to specifying, building and running the supporting information technology.

The changes to the railway will impose new requirements on information technology in terms of reach, range and behavior.

The approach to business taken by the railways of late has been a continuation of the past and no longer passes muster in the existing dynamics of business.

If the freight railways are to change the unfavorable trends mentioned at the opening of this article, they are going to need to change their business model.



The views expressed in this article are those of the author.

James Drogan is an Executive Consultant specializing in transportation with IBM Business Innovation Services. He is based in White Plains, NY and can be contacted at jimd@us.ibm.com

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