

A Strategic Analysis of



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MGMT 684



Introduction to CSX

- Jacksonville, FL
- Rail-based transportation
 - Energy, industrial, construction, agricultural & consumer products
- 19,500 miles of track across 23 states
- Most fuel-efficient way to move freight over land

CSX by the Numbers

194

years in operation

More than

20,900

employees

Average of

1,634

trains per day

Approximately

19,500

route mile rail network

Approximately

3.3 million

carloads

Approximately

3 million

Intermodal units transported products and raw materials

\$12.5 billion

of revenue generated

More than

3,500

locomotives, which reduce greenhouse gas (GHG) emissions by 75% compared to trucks

CSX 2020 Environmental, Social and Governance Report



Introduction to the Railroad Industry

- 140,000 route miles of track
- \$80 billion industry
- Large, Class I and Small, Regional railroads
- Competitors
 - Trucking, barge and pipeline industries
- Keys to Success
 - Cost efficiency
 - Reliability
 - Speed of Service

Class I Railroads



The Macroenvironment

Technological

Demographic

Global

Social

Macro-
economics

Political &
Legal



Porter's Five Forces Ranked

1*Rivalry Among Established Companies***2***Bargaining Power of Buyers***3***Bargaining Power of Suppliers***4***Threat of Substitutes***5***Risk of Entry*

The Competitor: Norfolk Southern (NS)



2021 Data

Operating Revenue	✓	\$12.5B	✗	\$11.1B
Net Income	✓	\$3.781B	✗	\$3.005B
Operating Ratio	✓	55.3%	✗	60.1%
Employees	✓	20,900	✗	18,500
Route Miles	✓	19,500 miles	✗	19,300 miles
Locomotives	✓	3,500	✗	3,210
Freight Cars	✓	48,033	✗	40,713
Market Cap (June 2022)	✓	\$64.05B	✗	\$53.16B
Merchandise Carload	✓	2.6M	✗	2.3M
Intermodal Carload	✗	3.0M	✓	4.1M
Coal Carload	⚖	0.7M	⚖	0.7M

Value Chain Analysis

Primary Activities

Research &
Development

Marketing
& Sales

Rail Operations
& Equipment
Management

Customer
Service

Supporting Activities

Logistics
Processing

Human
Resources

Technology (IT)

Company
Infrastructure

CSX's Competitive Advantages



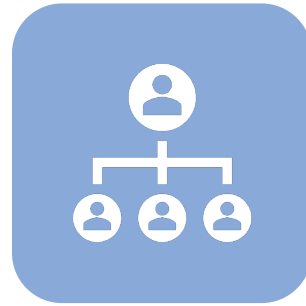
Transportation Network

Serves large population centers in the U.S. with two thirds of the U.S. living in CSX territory



Rail Operations

Industry leader with precision scheduling, boosting its reliability and productivity



Organizational Structure

Commercially and operationally enables specific expertise, providing better understanding of customer needs



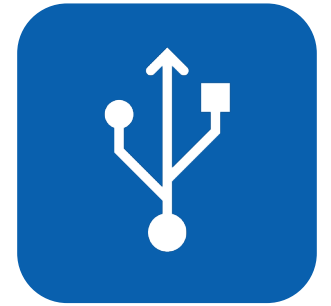
Heavy Loads & Long Hauls

Specialized in hauling heavy freight over many miles that reduces their carbon footprint and road congestion.



Fuel Efficiency

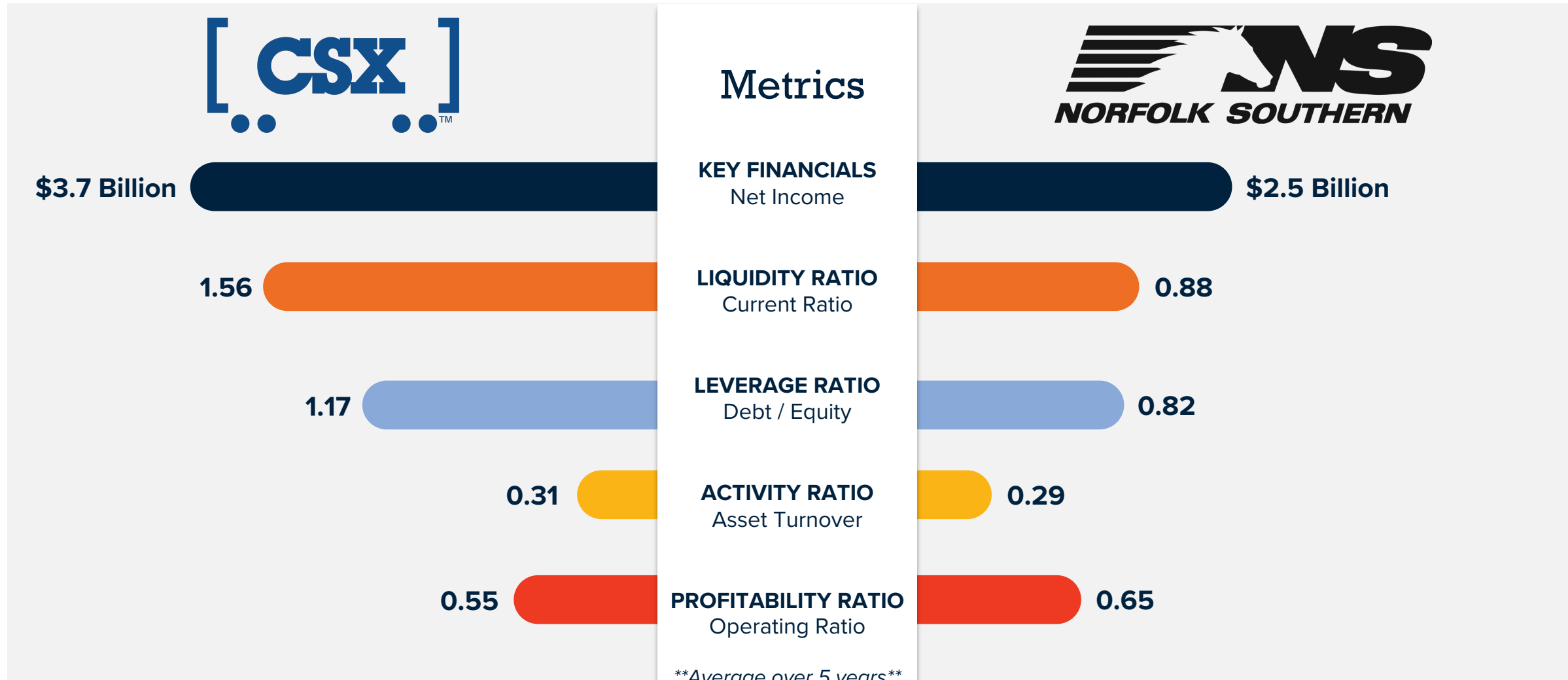
Offers the most fuel-efficient mode of freight transportation on land with significantly reduced emissions



Advanced Technology

Smart sensors, big data, drones and greater equipment utilization for safe, reliable, on-time shipments makes CSX stand out.

CSX vs. Norfolk Southern Financials



The Value of CSX

12.37
Percent

Weighted Average
Cost of Capital

\$64.05
Billion

June '22 Market
Capitalization

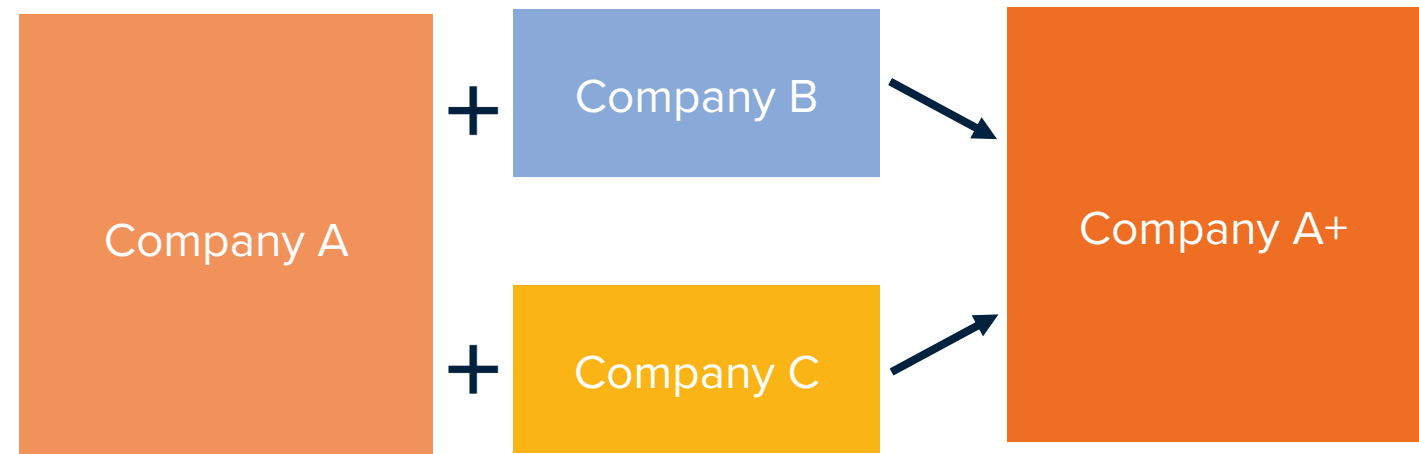
\$78.11
Billion

CSX Enterprise
Valuation

Corporate-Level Alternative:

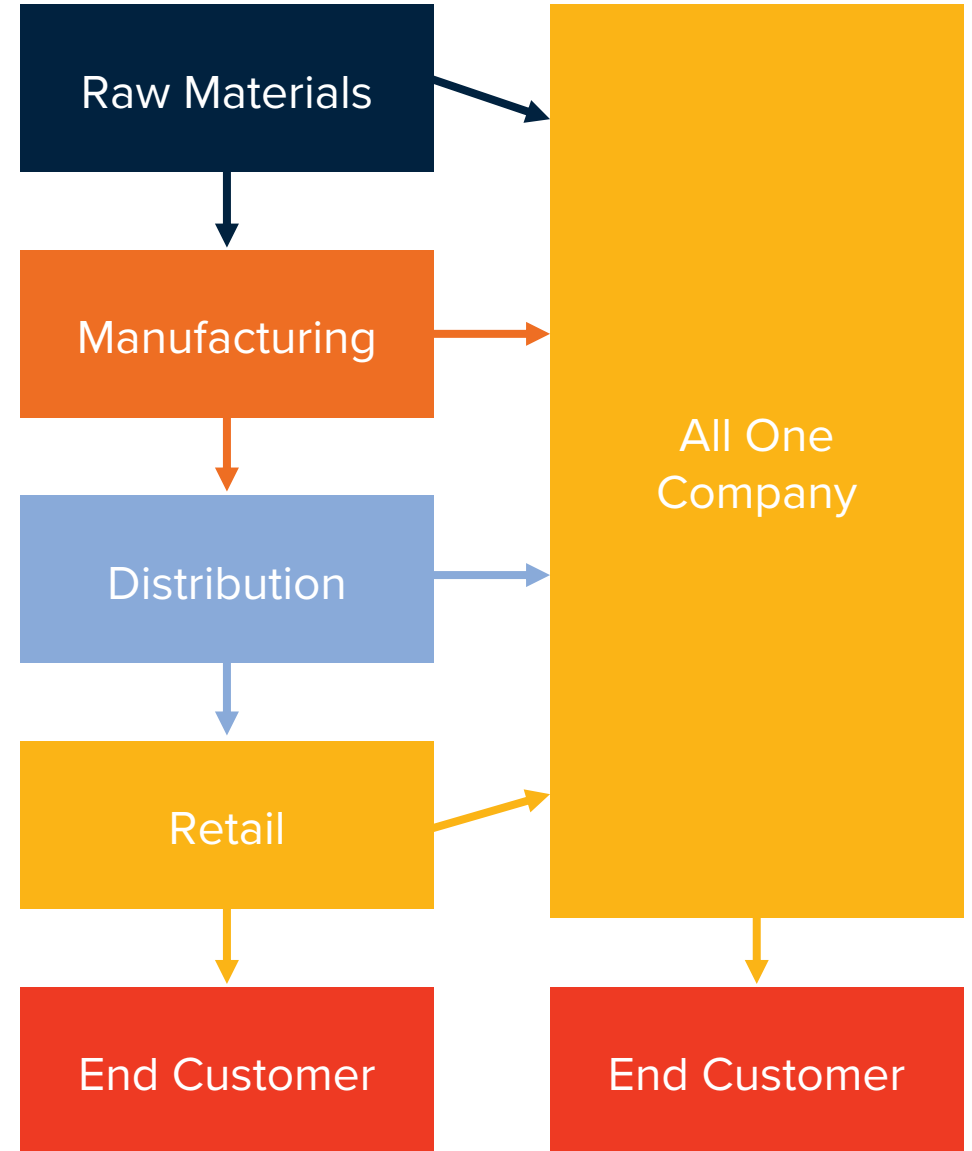
Horizontal Integration

- Utilizing mergers and acquisitions within the same industry to create one larger operation
- Advantages
 - Lowers cost structure
 - Increases bargaining power
 - Reduces rivals
- Disadvantages
 - Reduces consumer choices
 - Decreases internal flexibility
 - Receives regulatory scrutiny



Corporate-Level Alternative: **Vertical Integration**

- Taking direct ownership of various stages of production within a company
- Advantages
 - Cuts out outsourcing
 - Lowers cost structure
 - Strengthens business model
- Disadvantages
 - Increases costs due to
 - Increased initial costs
 - Fast-changing technology
 - Unpredictable demand



Business-Level Alternative:

Price Leadership

- Taking the position as the dominant firm to set the price in the industry
- Advantages
 - Stabilizes industry
 - Advantages low-cost providers
 - Increase business
- Disadvantages
 - Possible anti-trust concerns
 - Decrease value
 - Disadvantages smaller companies

Dominant Provider
Sets Industry at a Lower Cost

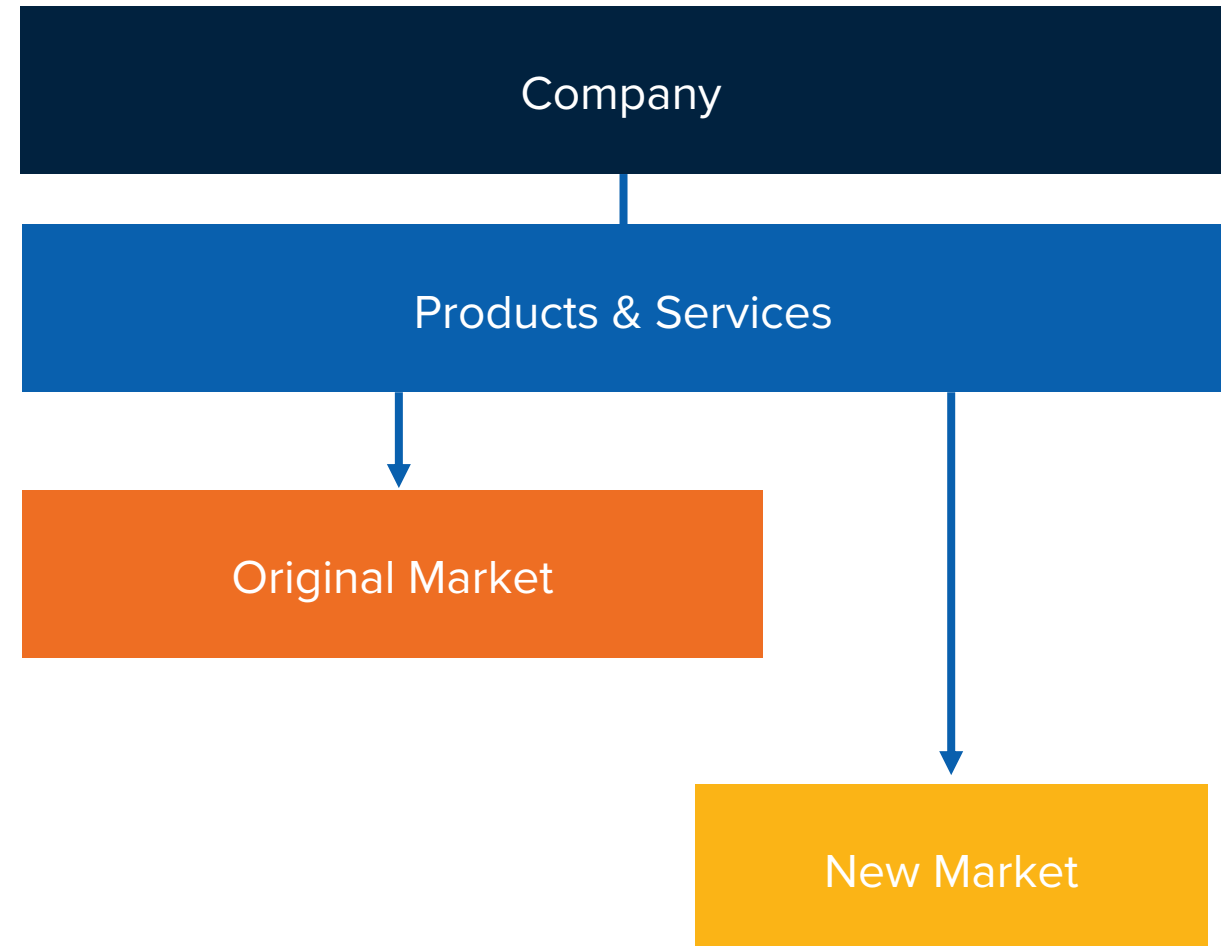


High-Cost Providers
Cannot survive with new industry-wide low prices

Business-Level Alternative:

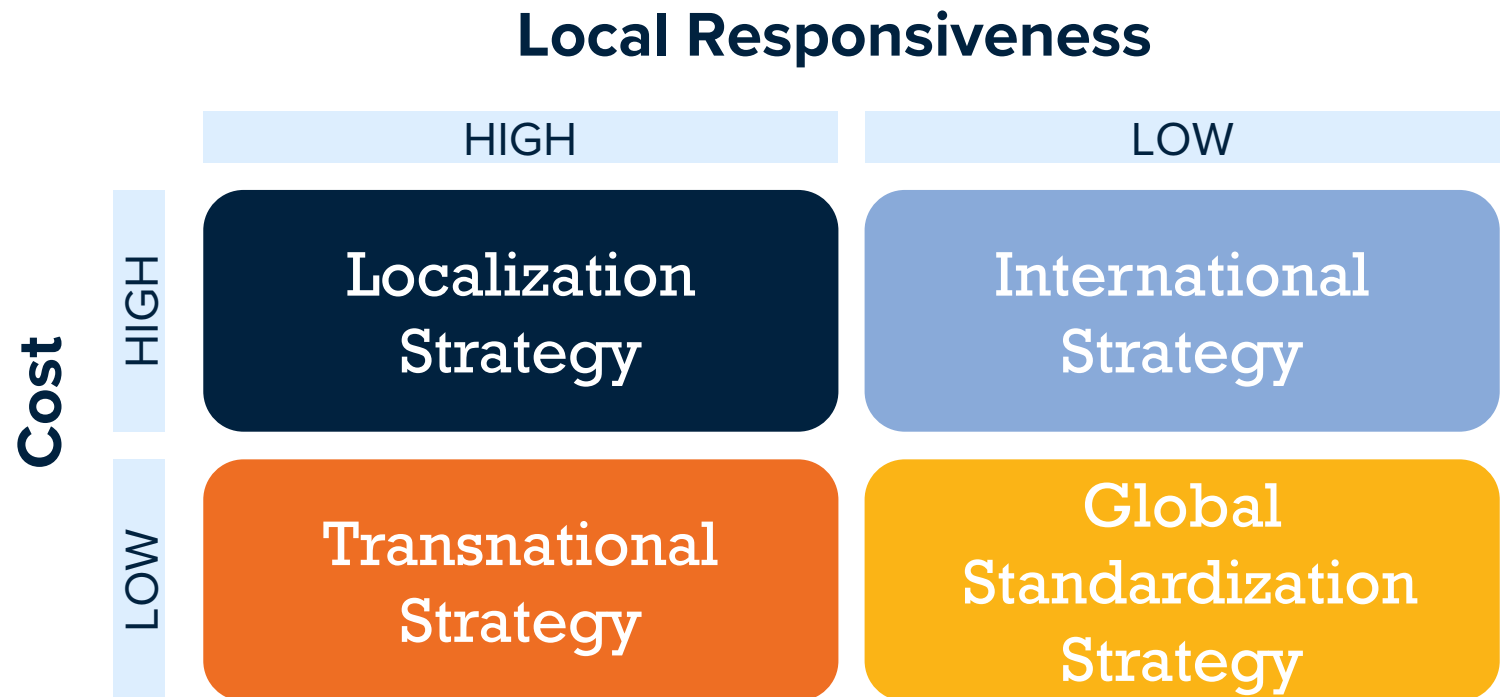
Market Development

- Introducing existing products and services to new markets
- Advantages
 - Offers less risk than other options
 - Broadens scope of business
 - Widens reach of customers
- Disadvantages
 - May require additional investment
 - Creates potential competitors
 - Creates more unknowns



International-Level Alternatives

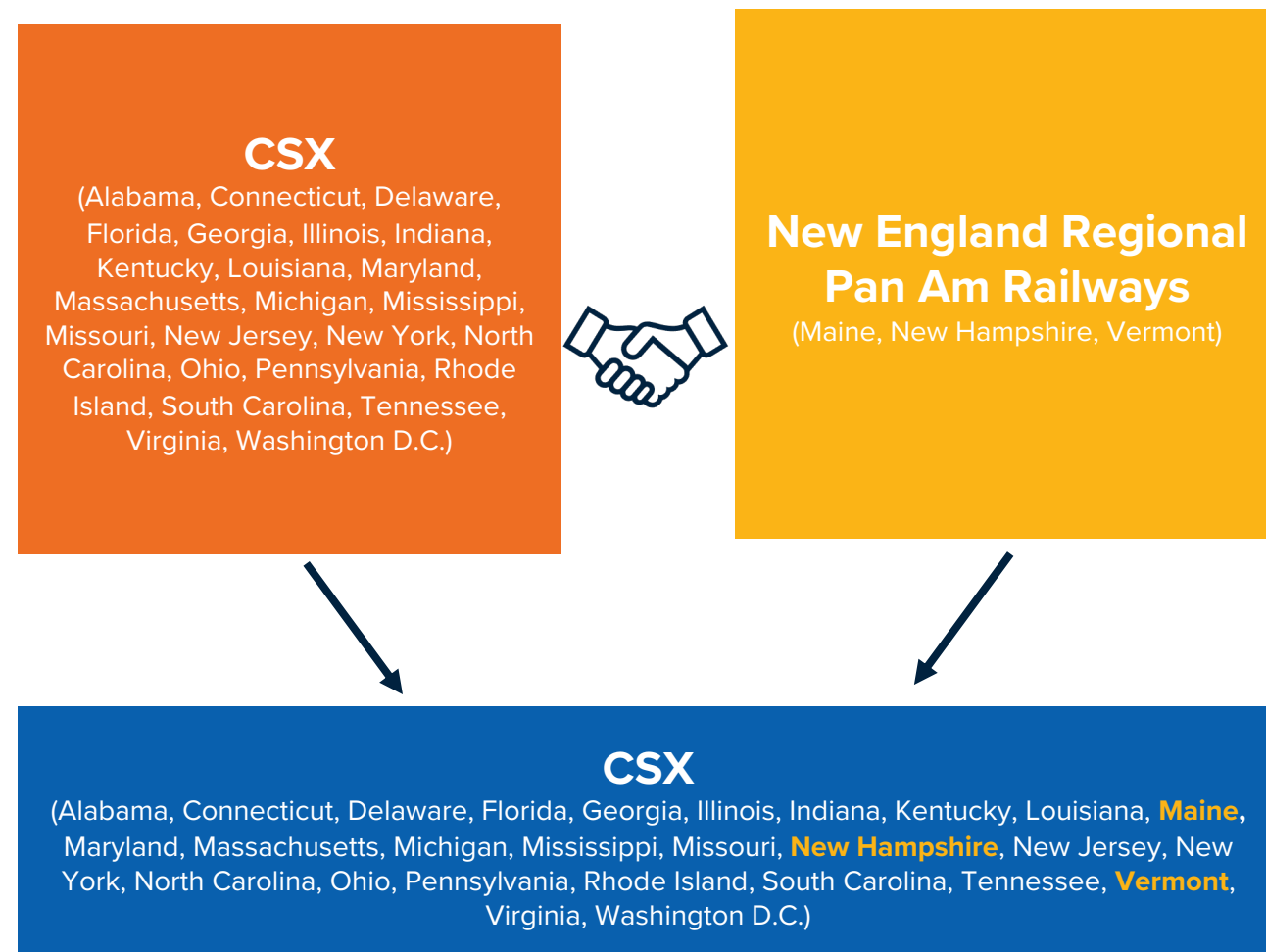
- International trade depends on robust transportation systems
- Global strategies and CSX as a service provider
- CSX's global and domestic opportunities are interrelated



Corporate-Level Strategy:

Horizontal Integration

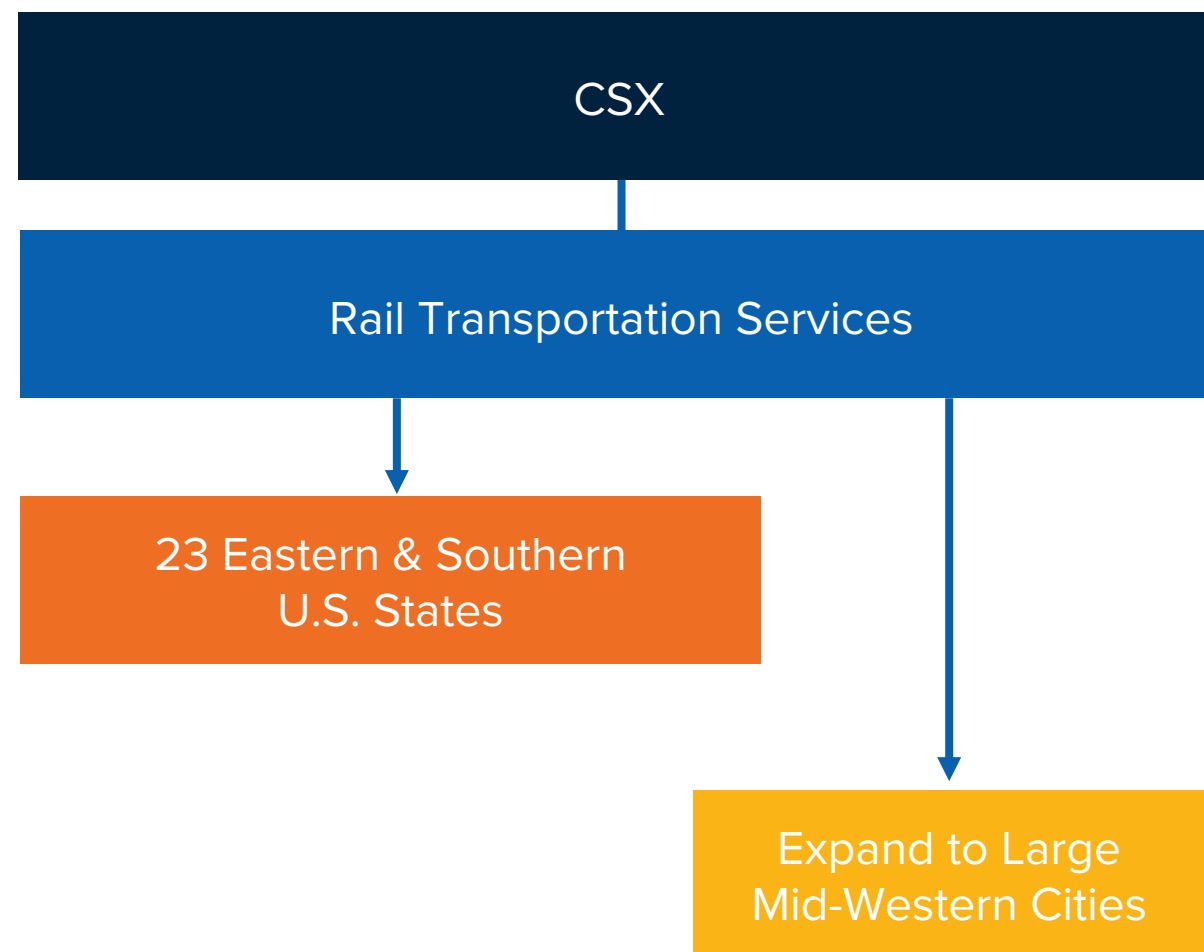
- Enables CSX to promote its competitive advantages while staying within the rail transportation industry
- Utilize acquisitions to efficiently expand operations into new and expanded markets
- Pros
 - Increase market share from acquiring other rail lines
 - Increase profitability and efficiency through new connections
 - Lowers cost structure through economies of scale
 - Expands competitive advantages unique to CSX
 - Reduces rivalry through acquisitions
 - Increases bargaining power due to greater size
- Cons
 - Possible regulatory scrutiny through reduction of choices for consumers
 - Less internal flexibility
 - Potential to diminish value
 - Expensive



Business-Level Strategy:

Market Development

- Utilizing existing service products that can be employed in new markets
- Extends the reach of CSX to capture new markets
- Pros
 - Less risky than creating a new product or transportation solution
 - Brand service and recognition is already established
 - Increases CSX's scope of business to new territories and customers
- Cons
 - Uncertainty in ever-evolving market
 - Limited knowledge of new market compared to companies that are already established there
 - Competitive responses
 - Additional capital investment to add/buy rail lines in new markets



International-Level Strategy:

Global Standardization Strategy

- Utilize standard messaging, marketing and service across markets, countries and cultures through a low-cost strategy
- Pros
 - Low cost and local responsiveness
 - Constant brand experience
 - Maximum cost benefits from economies of scale
- Cons
 - May affect acceptance of brand and services
 - Must use low, aggressive prices to attract new customers

Expanding CSX's use of their Service Excellence Strategy through Global Standardization



Organizational Structure

- Multidivisional, decentralized structure
 - Departments and sub-units depending on key market responsibilities
 - Decision making at lower-levels
- Flat Hierarchy
 - Senior management focus on critical issues
 - Employee empowerment
 - Flexible and efficient managing
 - Better decision making
- Optimal in implementing strategic choices



James M. Foote
President and CEO



Kevin Boone
EVP of Sales & Marketing



Jamie Boychuk
EVP of Operations



Stephen Fortune
EVP & Chief Dig. & Tech. Officer



Nathan Goldman
EVP, CLO & Corp. Secretary



Sean Pelkey
EVP & CFO



Diana Sorfleet
EVP & CAO



Arthur Adams
SVP of Sales & Marketing



Brian Barr
SVP of Network Planning & Services



Farrukh Bezar
SVP & CSO



Ricky Johnson
SVP of Engineering & Mechanical

Leadership

- Leadership at CSX is generally relationship oriented
- James M. Foote
 - President & CEO
 - Transformational Leader
- Decentralized power at CSX is beneficial for strategic choice implementations
- Leadership is currently optimized
 - Transformed by Foote in 2017



Organizational Culture

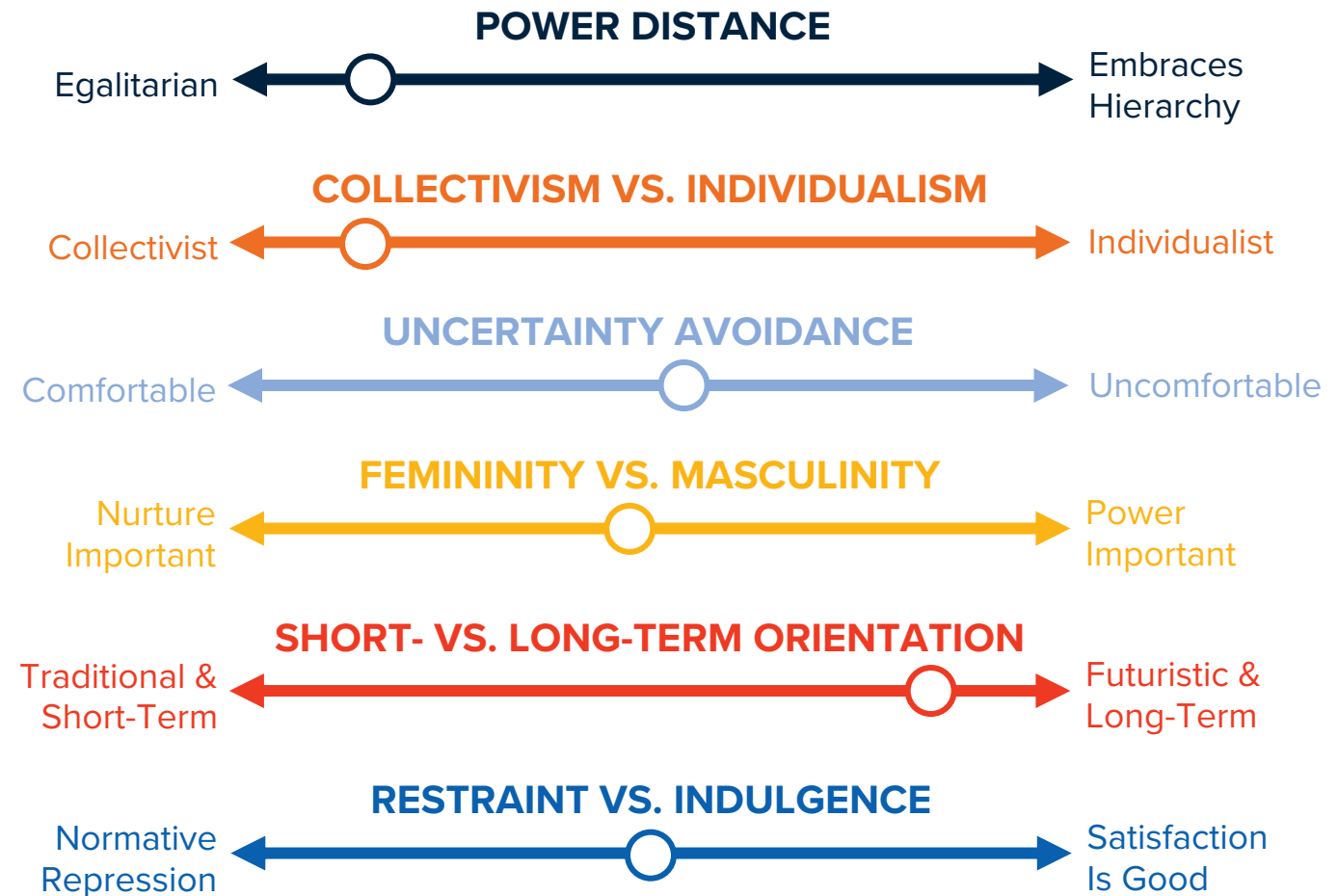
- Hofstede's Dimensions

- Egalitarian
- Collectivistic
- Comfortable but cautious with uncertainty
- Mix of Masculine and Feminine
- Futuristic and Long-Term Oriented
- Mix of indulgence and Restraint

- Strong organizational culture works in favor of strategic choice implementation

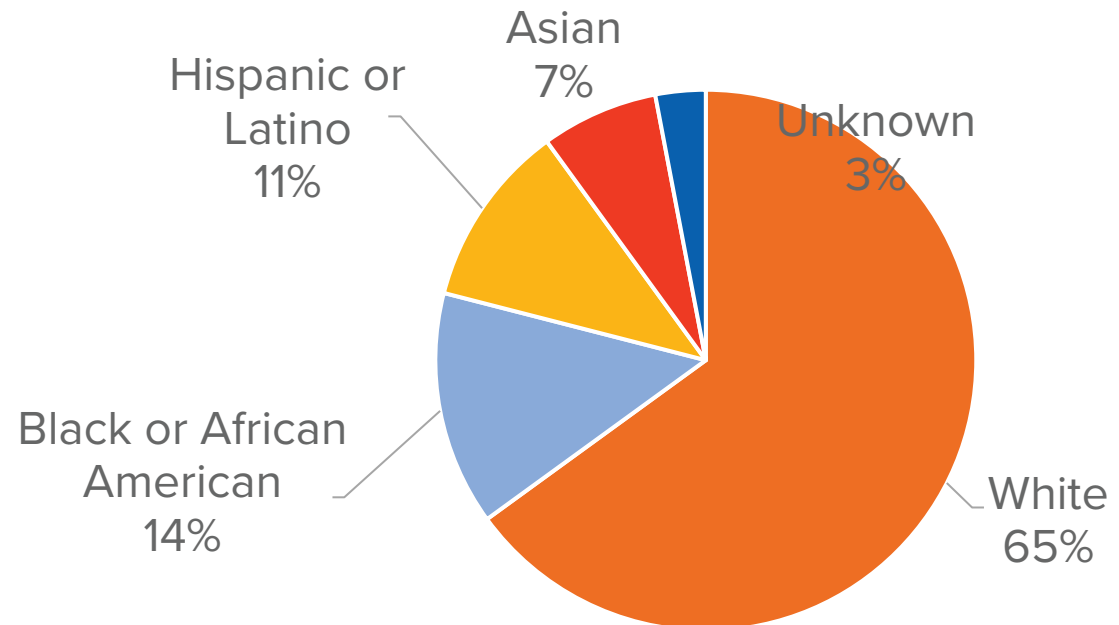
- Improvements

- Increase Transparency
- Increase Diversity
- Continue to nurture and develop employees as a whole



Ethics & Social Responsibility

- CSX's Code of Ethics
 - Sent annually to all employees
 - Available to the public
 - Ethics training for all employees
- CSX's Ethic's Statement
 - "Act With Integrity: Always Do the Right Things"
- Values diversity
- Environmental, Social and Governance Team established 2019
 - Helping identify and analyze internal and external issues with the help of stakeholders



Thank You

