

Rail Freight Hauler

The Setup

The client is the CEO of a larger company that is currently engaged in the business of Rail Freight Hauling. The business fundamentals continue to be strong, but recently the Company has struggled in generating the strong shareholder return that is characteristic of the Company and its peer group.

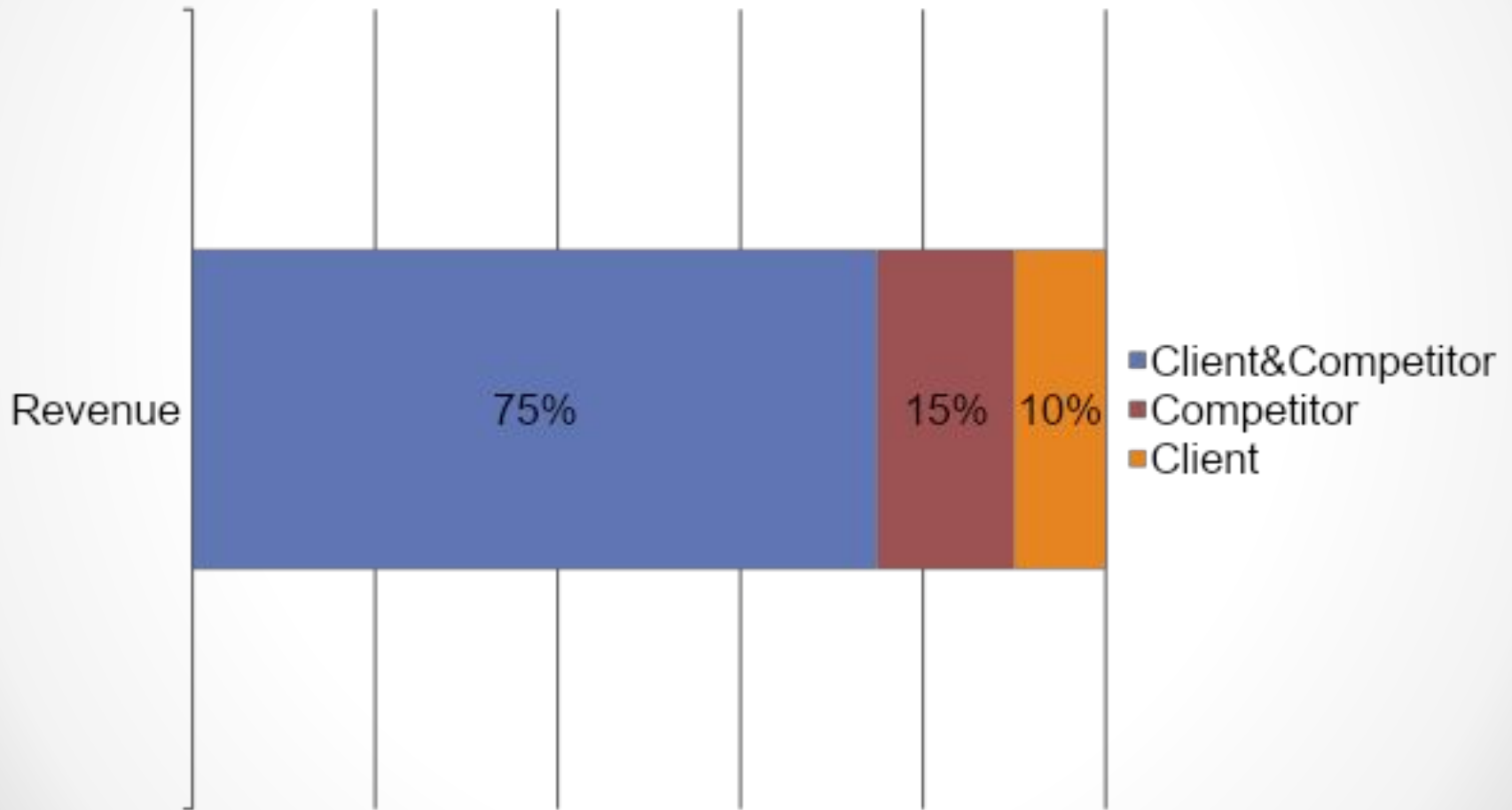
Question

What has caused the decline in shareholder return and how should the CEO address the problem?

Additional Info

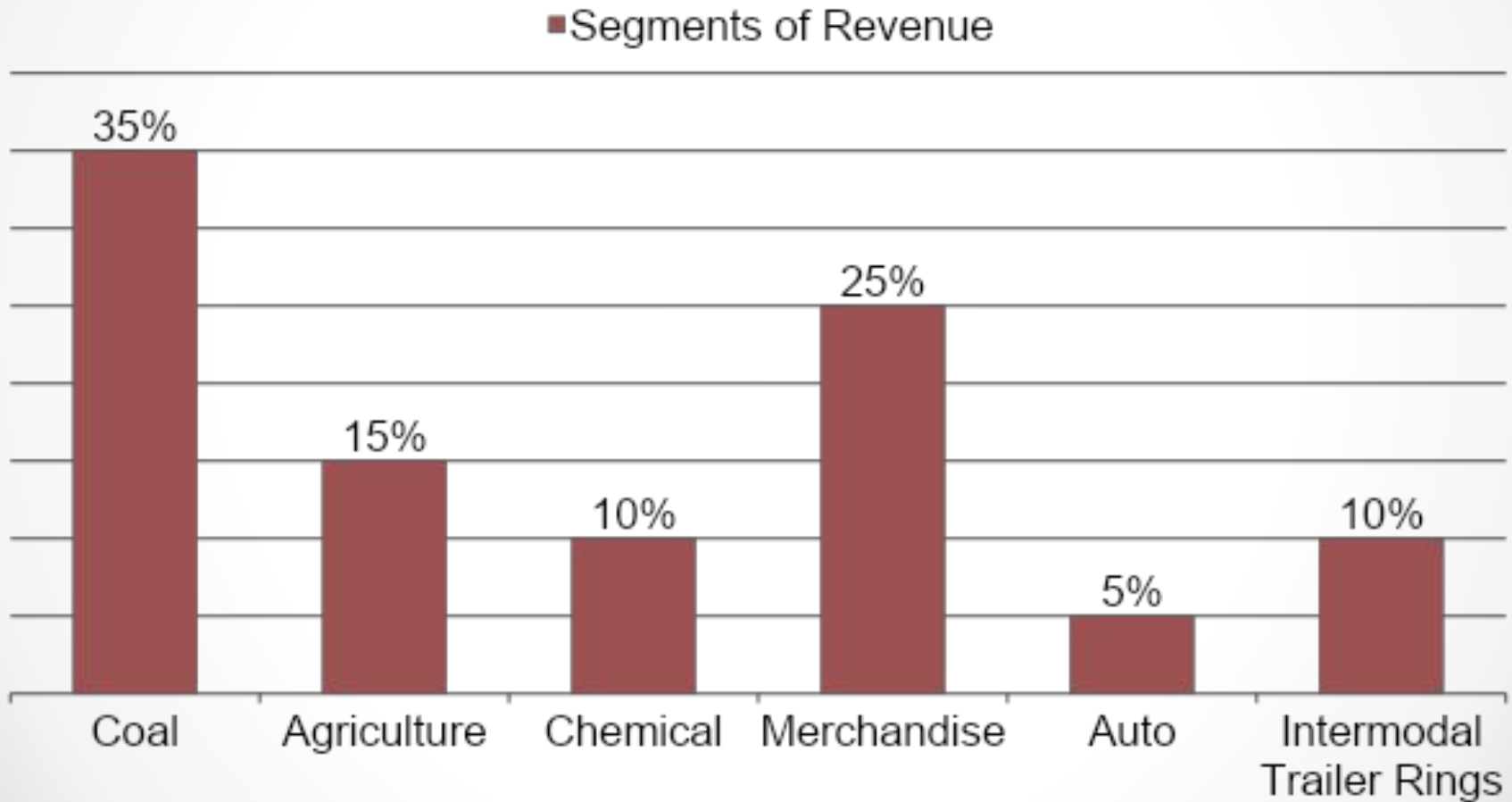
- The industry is very mature
- Business has relatively low variable costs
- There are four major companies in industry – two in the West and two in the East, all with same national market share
- There is a significant consolidation in the industry
- Service is non-contiguous between the East and West and transnational service is a small segment of the overall market
- Our client competes only in the West

Additional info



25% of revenue comes from agriculture and coal mainly
Revenue growth comes from acquisitions commonly, market shares stay relatively constant

Additional Info



Company is one of more profitable in industry with cost savings of approximately 10% per year for the last 5 years.

Our client recently merged with another company of equal size – our client has completed 75% of the integration of the merged companies, areas which include stock yards, service centers, train sets, and track disposition