

Analysis of the industry: porter's five forces



**ASSIGN
BUSTER**

After the three decades of the war ended the political situation in the country is stable and the current government enjoys 2/3 of the majority of the parliament and president remains the most popular person in the country. But the political turmoil surrounding the Middle East and Iran affecting the local export market since most of the tea products were export to the Middle East market. Also, the economic sanctions impose by the United States and the European Union on Iran affecting the local export market.

2. 2 Economic Environment

The fluctuating exchange rates are affecting the local producers since most of them import the raw material from China and India and produce their main products. The world economic downturn affects the local economy. The opening of the new port and expansion of Colombo port will bring more vessels to the Colombo port. This will definitely increase container volumes to the country.

2. 3 Legal Environment

The government has introduced a system to regulate the shipping and freight forwarding industry in the country. All shipping and freight forwarding agents must register with Merchant Shipping department. Where they will categorise to two separate groups and issue licences. This is renewable yearly.

2. 4 Technological Environment

The Sri Lanka customs department has introduced the new EDI (electronic data interchange) system to update shipping manifest through the entering in to customs department website , which will benefit the industry where

cost and time of the forwarders will be saved . previously the manifest were submitted by manually and separate person should allocate to do the job. Also this will help the accuracy and duplication of work.

3 ANALYSIS OF THE INDUSTRY THOUGH PORTERS FIVE FORCES

3.1 The Threat of new entry

In the Sri Lankan freight forwarding industry the threats of new entry is rather high because there are no legal requirements other than registration as a company with register of companies. Any one or any party can enter in to the industry with only requirements are recognition in the industry, business contact and Agent network with minimum capital can easily enter in to the industry . The new entry enters in to the market will be burden for the existing freight forwarders in the market. The industry is already overcrowded with so many players competing for slow growing market and everyone have to share the existing customer base with new entry.

The entry barriers to the market can be arisen due to economies of scale when the new entrant does not have the volume advantage at the start of the business. Another barrier is the new regulation by the government which comes under the Merchant Shipping Department. The forwarders must have the licence to carry out the business with in the local Market.

3.2 The Treats of Substitutes

The substitute's service can be provided by the carriers and air lines by way of value additions or part of the supply chain to the customers. Ware these carriers can provide additional services like warehousing, transportation,

inventory control etc. The Maersk the world leading carrier has started their own arm to provide the additional value added services to the customers by in the name of DAMCO international . this will surely make the adverse effect on the current forwarding market in the country.

3. 3 The Bargaining Power of the Buyers

In the Sri Lankan freight forwarding market the bargaining power of the buyers are very high. when compared to other markets in the world country have very small import and export market in year 2011 country's export containers were around 260047 and imports containers were around 487901. other than forwarders the main carriers are also competing to get the business direct from the customers. The freight forwarder has to convince the buyers and must offer more value for the money. Due to high completion and small market the buyer power high within the industry.

3. 4 The Bargaining Power of Suppliers

The suppliers for the freight forwarders either shipping lines, airlines, warehouse provider or Logistics Company's provide services to the freight forwarders. In Sri Lanka the shipping lines and air lines are dominating the market . if other than the freight forwarder has large volumes they can bargain with the shipping lines and air lines other than that the bargaining power of the suppliers are very high.

3. 5 Competitive Rivalry among Existing Firms

As per the merchant shipping department there are 296 freight forwarding companies operating in the local market and there is also other freight forwarders operating in the market without licences. There is high

competition among the forwarders since the export market is only expand around 6% in year 2011 and import market did expand by 17% when compared to 2010 as mentioned by the Sri Lanka Freight Forwarders Association (SLFFA). In the industry there are a lot of equal size competitors in the market competing for the same market share will result in intense competition within the market. And there are few major size competitors competing in different sectors of the market. Most of these competitors compete in the apparel and tea sector since those are the most exported commodities in the country.

CONCLUSION

When analysing the five force framework in the freight forwarding industry in Sri Lanka there is little information about the individual performance of the rival organisation. And there is no ranking system to identify who the best company is providing the forwarding services in the industry. And there is a lack of understanding among competitors within the industry about the growth and there is no growth forecast within the industry.

When analysing the above findings there are a lot of competitors in the market for sea freight export since the market is very small compared to the other countries. Most of the freight forwarders concern about the full container cargo (FCL Containers) in the market and less about the loose cargo load (LCL) and multi country consolidation (MCC).

4. VALUE CHAIN ANALYSIS

4. 1 Primary Activities

4. 1. 1 Inbound Logistics

When comes to the export of goods organisation provide transport from shippers place of production to the organisations ware house. Fumigation, obtaining relevant certificates for the export purposes is other value added services. In the import sea freight communication with relevant shippers in the various destinations, picking up the relevant goods, storing in the ware houses in the relevant destinations till it ships to relevant destination.

4. 1. 2 Operations

In sea freight exports the operation is stuffing the relevant cargo inside the container according to the stuffing plan. In this case the Cargo must be stuffed to the container without any damages and relevant cargo must be send to the relevant containers accordingly. And should send to the relevant ships accordingly. In Import Sea cargo must be DE stuffed accordingly.

4. 1. 3 Outbound Logistics

When is come to the import shipments after receiving the goods to the Colombo port the organisation must issue the relevant documents to the relevant consignees to clear the goods from the relevant ware houses operated by the Sri Lanka ports authority. Also tracking down the cargo from the various ware houses.

4. 1. 4 Marketing and Sales

Promoting sea freight business with relevant rate to the direct and cooperate customers, overseas agents and shippers with value added services are the part of the sales and marketing

4. 1. 5 Services

Tracking the customer's cargo till its deliver to relevant parties, issuing Delivery orders, Bill of ladings, surveying for the damage cargo and issuing relevant letters to obtain the insurance claims and sending arrival notices some of the additional services provided by the company.

4. 2 support activities

4. 2. 1 Technology Development

The firm provide tracking system to all their customers to track their cargo through new innovative system . using this system customers can see where their cargo are currently lying on or which vessel the shipments are on and time this shipments will be delivered to the destinations.

4. 2. 2 Firm Infrastructure and Human Resources Management

The firm has a good reputation among the customers. The organisation poses a good customer centric culture. The MIS support the innovation and responsiveness to the customer needs.

5. THE SOURCE OF COMPETITIVE ADVANTAGE THROUGH ONION MODEL

THE GOOD ONION MODEL

5. 1. 1 The Agent Network

The organisation poses a worldwide agent network . the organisations has 40 associate offices in 13 countries and cargo ships to over 120 countries reaching more than 1200 destinations worldwide which unmatched by the local competitors .

5. 1. 2 Superior Rate Structure & Cost Leadership in LCL Market

The organisation offers the most competitive rate in the LCL cargo sector in the market and most of the other freight forwarders in the market co-load their shipments with company since they do not have the capabilities match the rate offered by the firm.

5. 1. 3 Leading Multi Country Consolidator

The organisation is the innovator of the large scale of operations of the multi country consolidation among the competitors. Firm is the leading MCC to Indian sub-continent.

5. 1. 4 Innovative Cargo Tracking System

The customers can track their cargo through the system only they have to do is enter the bill of lading numbers to the system and will be able to get the full details about their cargo

5. 1. 5 Customer Centric Culture

The organisation is fully focused on customers' needs and requirements. Organisation have separate department focusing the customer care and even has customer complaint line which is first for the Sri Lankan freight forwarding industry.

6. THE BAD ONION MODEL

6. 1. 1 Parochial Top Management Mind Set

Even though the organisation very centric towards the customers and customer need they are not much focused on the developing business to the next level or stepping up for the next level. They poses very narrow set of business vision for the company and does not want step outside the comfort zone their currently in and change the current business dynamics.

6. 1. 2 Employee Engagement

The organisation lacks the motivation to achieve its goals . where employer wants employees to do their best work and drive the organisation towards its goals. To do that employer must engage with the employees and find the ways to get more from the employees other than the primary work set they have been assigned to do .

7 THE SWOT ANALYSIS

7. 1 Strengths of the Organisation

7. 1. 1 Agent Network

As mentioned earlier organisation has good agency network around the world. Using this network firm can import and export any cargo according to the customer requirements.

7. 1. 2 Rate Structure

Since the firm operates most parts of the world with various agents organisation can offer the cheapest LCL rate in the market. Most of the agents the firm work are the market leaders in those destinations and they

have the lowest tariff with in that particular destination . with the collaboration with them organisation can offer the best rate in the market.

7. 1. 3 Transshipment Cargo Volume

The Colombo port is a strategic transshipment point in the world. So most of the cargo to Europe from Indian sub-continent tranships through the Colombo port and most of the European Cargo to Indian sub-continent tranship through Colombo port. Large numbers of agents send their transshipment cargo to consolidate in Colombo and deliver to the various destinations.

7. 2 Weaknesses Of the Organisation

7. 2. 1 Working Capital Inadequacy

The firm always works with the thin profit margins with credit to the customers sometimes with low volumes will create a loss situation where it will affect the working capital requirements of the company. The other scenarios is there more imports to firm than exports and the firm has to pay to the agents and should provide credit to the customers this will also create working capital inadequacy.

7. 2. 2 Human Resource Management

The firm not very keen in developing good human resources management process . this will lead to the less employee engagement and will hinder the achievement of organisations goals through performance.

7.3 External Opportunities

7.3.1 Development of Colombo and Hambantota Port

The development of Colombo port efficiency and increase of the handling of the containers will affect the industry also opening of the new port in Hambantota will increase the vessel calling specially the car carriers are promoted in the new port. Expansion of the Colombo port to will attract more vessel to the port and will benefit the local industry by more volumes and less cost

7.3.2 Stable political Environment

The ending three decades of the war and stable political environment will attract more investors to the country. The more investment comes and starts new business will create more imports and exports from the country.

7.4 External Threats

7.4.1 Weak Economic Development of United States and European Union

The European Union and United States economic crisis were affected to the local garment and tea and other sectors badly and this crisis has been effected to the freight forwarding industry also the export market were grown only by 6% in last year.

7.4.2 Turmoil in Middle East and Sanctions to Iran

One of the best export market for the country is middle East and Iran . the current turmoil in Syria, Egypt , Libya has halted the export to those

countries also the sanction by the US and EU to Iran also effected the industry .

8. THE VISION, MISSIONS, CORE VALUES OF THE COMPANY

The Colombo office uses the same vision statement as head office in Singapore. This is a border group with different SBUs and freight forwarding is a one SBU among other business units. Colombo office should have a different vision for its objectives. Modified vision statement for the firm would be “ TO BE A ONE OF LEADING FREIGHT FORWARDING COMPANY IN SRI LANKA WITH GLOBAL FREIGHT FORWARDING CAPABILITIES”.

The mission statement by the head office will be the mission to the company since to become the leading freight forwarding company in Sri Lanka the firm must move to the other sectors of the logistics to provide best value to the customer.

8. 1 Core Values

8. 1. 1 Service Reliability

Provide the best service to customers and to improve the service levels and consistently upgrade the service levels

8. 1. 2 Competitiveness

To provide competitive freight rates in the market and pass any reductions possible to valued customers so they can keep their cost down to the minimum levels.

8. 1. 3 Customer Focus

<https://assignbuster.com/analysis-of-the-industry-porters-five-forces/>

To understand the customers' requirements and utilise the knowledge of the organisation to deliver quality, committed service to the customer

8. 1. 4 Teamwork

As a reputed organisation it values the strength of an individual and combined together to deliver the objective of the firm

8. 1. 5 Quality

The firm to ensure customers receive a standard of service which provides quality and assurance that can deliver time and time again.

After analysing the firm performance trends for the year

2008/2009/2010/2011/2012 the growth target was set. The average profit for the previous years is about 11% for the export and imports therefore the target was set as 13% of profit increase for two sectors. The target was set as 13% due to increase volumes and profit margins for the current year and previous year and expansion of Colombo port and operations in the new port will increase the volumes for next few years. Also political stability in the country and increase of foreign direct investment to the country will improve the economical growth.

The target could not raise to 13% due to the economic turmoil in the Middle East, US, EU these markets are still recovering and it will take more than three years to improve the current crisis.

10. STRATEGY OPTIONS TO ACHIEVE THE GROWTH

1. The Ansoff Approach

10. 1. 1 Market Penetration

Increasing the sales volume through new marketing recruitments, providing sales discounts to encouraging the customers to purchase more services, offering the best possible rates to competitors to attract their cargo to the company

10. 1. 2 Market Development

Firm can enter in to the new market segments like Garment and telecommunication through supply chain management . Also can enter in to the alliance with Maldivian hotel trade to exclusively supplier of from various destinations.

10. 1. 3 Product Development

Firm can combine their import and export business together and provide services such as imports goods from one country and export the same goods to an another country . bundling the products together and offering as a one product (freight, transport, packing , entry passing together as one product)

1. 4 Diversification

Firm can move in to a commodity markets where they can buy and sell commodities using freight services as base.

10. 2. The Porters Approach

10. 2. 1 Cost Leadership

Currently the firm provides the lowest cost in the market. Where firm cut the costs to the minimum and pass the savings to the customer with lower price . this help to attract more volumes to the organisation.

10. 2. 2 Differentiation

The firm can differentiate their product and services more attractive than the competitor . this can be create through customer service, image of the organisation, faster services to one destination to another.

11. STRATEGY FOR THE GROWTH

The firm to use hybrid strategy for the growth . the organisation need to penetrate in to the market using cost leadership and use the strengths to pursue opportunities. The firm currently have superior agency network and best rate structure using these strengths firm can pursue more penetration in the market to achieve the growth target set.

Through market development using differentiation as a tool firm can enter in to the new local and overseas markets.

Currently the group does not operate in Maldives and therefore firm can represent the group by opening up a branch office in Maldives. Currently Maldives have one shipping line and one freight forwarding company and the whole group has not promote the Maldivian cargo especially there is lot of cargo moving in to the hotel sector from Europe and china.

Currently firm only offers few services such as freight, transport, packing and entry passing. This will limit the growth opportunities. Firm can enter into a new market segment using supply chain management. This will help the firm to tap in to the appeal industry which is one of the largest import and export market in the country.

The growth target growth for the next 3 years is 13% increase of profit and volume. Through new product development firm can attract more customers and volumes to achieve the set target. Combining few product and services as new product and offering to the customer's services like imports from one destination to other destination without importing the goods to Colombo will be a new product development to the firm

Sri Lanka is world famous for its tea, rubber, coconut, cinnamon, cloves, nutmeg and pepper. The firm can concentrate on those commodities with advantage of knowledge on logistics can enter in to the commodity market as a diversification strategy

Attracting more customers will increase the volume and with improved volumes firm can reduce the bargaining power of the suppliers and reduce the direct cost of the freight, transport and warehouse to improve the firm's profit margins.

12. THE RESOURCE IMPLICATION

To achieve the target growth organisation must control the administration, marketing, finance and cost of sales expense wisely.

12. 1 Human Resource Management Implications

The growth target is only to be increased by 3% so the organisation will use the same work force to achieve the target except the marketing department. Marketing really need to hire few personals to enter in to the new markets and promote products.

12. 2 Capital Implications

The organisation need to provide credit to the customers and will have to work on thin margins therefore there should be an initial capital injection required to ease working capital requirements.

12. 3 System and IT Implications

The organisations have to modify the current system since its runs with full capacity. Therefore adjustments should be made to the current system to accommodate more data inputs with different modules. Also need to develop modules for supply chain management and branch office monitoring and improved MIS.

12. 4 Finance Department Implications

The finance should gear up with knowledge of accounting and audit standards required for the new business units and should able handle the large debtor and creditors list and should able to manage efficient cash and bank balances to support the growth

12. 5 Ware House and Transport Implications

The current ware house space has to increase to accommodate more cargo. Therefore the firm has to find more space or efficiently handle the cargo

movement without adding more space. Also the transport providers will have to increase or transporters with large vehicles to hire.

13 HOW CHANGE WILL BE ACCOMPLISHED

13. 1. Developing Momentum

To achieve the target firm must develop a momentum inside the organisation. Then should communicate the aspirations and growth targets to the staff and align them behind the change required.

Top management should come out from their shell and should lead the way. Management should engage with employees to get maximum out from them to achieve the set target.

2. Planing the Change

Firm to break down the growth plan in to twelve months set milestones in to each month. What should achieve in the first month and should establish measures for success. Identifying key talent of the organisation and allocating and delegating responsibilities for planning and implementation to them. After every month the results to be reviewed extensively to find the results were achieved accordingly. If not preparing the contingency plan to fill the identified gap.

3. Top Management Leading the Implementation

Top management must inspire other for the change required. Also they must communicate with the staff, stake holders, and customers about the change. Seeking early success will improve the momentum for the growth and motivate staff. Every step of the change must monitor, control, and review.

Also they must prepare to deal with the unexpected turns in PESTEL factors and should plan for the continuous improvement till the target is achieved