Industry analysis: trucking industry in usa

Business, Industries

The paper discusses US trucking industry. The industry comprises of 79% of total freight industry of US. It is currently in high growth phase. This paper analyzes the driving and competitive forces affecting the industry as well as competency of existing firm. 1. The Industry's Dominant Economic Features • Market size The trucking industry takes up 79% of total freight industry. • Scope of rivalry: Rivalry is high due to soaring turnover rate and labor limit as well as low product differentiation and cost competitiveness. • Growth Rate & Life Cycle Stage: The industry had high growth in 90's.

Since 2003 the trucking industry has seen trend of merger and acquisitions which has stabilized the industry and it is back on growth track (Bailey, 2002). The GDP is projected at 2. 7% for 2007 (Fox, & Zadecky, 2006), the major driver for it is manufacturing, translating into growth of trucking industry (Foss, 2003). • Rivals & Market Share: The overall industry leader is Savage Industries Inc. with 41% of total industry revenue, followed by Schwerman Trucking Co. at 27%, next is GE Fleet Services with 14%, Schneider National Inc. with 9% and J. B. Hunt Transport Services Inc. sharing 7% of the entire revenue (answers.

com, 2001). • Integration & Technological Advancement: As compared to forward and backward integration, horizontal integration in form of mergers and acquisition has been observed more so in U. S trucking industry (Bailey, 2002). Technological innovations like telematics (tracking device for automobiles) and automated logistics system have completely changed the industry dynamics (Mullins, 2005). • Product Differentiation: Product differentiation is not particularly a competitive advantage, however, trucking company's do position their selves as fast deliverer, reliable deliverers or price competitiveness.

• Economies of Scales: Customers rely more on reliability of delivery specially with changing business preferences such as ' just-in-time' inventory. Economies of scale can be achieved by improving these aspects. The technological advancement (mentioned above) has also played a major part in bringing down overall operating cost in industry (Engel, 2005). • Learning Curves: • Capacity Utilization & Profitability: Yes, because delivery accuracy and employee turnover is high. Slight in-efficiency and lack of planning could result in reduced profits.

• Historical High Profitability: The historical high for trucking industry was in 1998 with $68 billion revenues (Wilson, 1999). • Industry Segments: The trucking industry in US can be divided into two segments, Less-Then-Truckload and Truck-load. • Dynamics of Industrial Segments: The firms in less-than-truckload segment are involved in end-delivery to consumer's doorstep, mostly used for internet purchases and truckload segment is providing services for business-to-business customers. 2. Porter`s Five Forces For Power of Buyers:

• Issues Representing High or Low Power: There are few trucking companies and high demand for services, however, the switching cost is low and the service provided is standardized. • Affecting Attractiveness of Industry: Industry is attractive for new entrants despite above mentioned because un-matched demand means opportunities for growth. For Power of Suppliers: • Issues Representing High or Low Power: Truck manufacturers are suppliers, transaction costs are high, the product is standardized and their buyers are only from trucking industry.

• Affecting Attractiveness of Industry: Limited suppliers of a standardized product do not really affect the trucking industry. For Barriers to Entry: • Issues Representing High or Low Power: Large capital investments for startup, dominated market leader with 70% share and widening supply demand gap encouraging growth. • Affecting Attractiveness of Industry: There is need for more firms in this industry as demand is high, making it attractive for new firms but large investments make it difficult. For Threat of Substitutes

• Issues Representing High or Low Power: Railway and air cargo are quicker but have geographical constraints. The substitutes can not deliver door-to-door like less-than-load trucks. • Affecting Attractiveness of Industry: The substitutes have low power and industry is attractive for new entrants. For Competitive Rivalry: • Issues Representing High or Low Power: Top five companies dominate market share, low differentiation and low switching cost. • Affecting Attractiveness of Industry: The industry is unattractive for a new entrant in this aspect because the market.

Summarized Effects: The industry has dominating leaders, low differentiation of product, low switching cost and requires high capital investment which makes it unattractive for new entrants. Still, it is important to note that the industry is constantly growing and the current firms have not increased their size, therefore, opportunities for profitability are high for new entrants. Variation Incase of Segments: Despite, segmentation in industry, the forces and their effects remain same. Difference is that buyer for truckload segment are strong businesses that pose a threat for backward integration and purchase a significant amount.

3. The Drivers of Change in the Industry and Impact They Will Have • Long term growth rate of industry is high of high demand of product. • Buyers are internet based selling companies and their consumers. The product is used for completing transactions initiated online. • Product innovation is not significant because core product is demanded by consumer. Technological change can help make delivery channel more efficient. • Marketing innovation Since buyers are limited, the marketing does not require high innovation. However, firms can use their drivers as personal sellers to increase customer base.

• The entry and exit barriers are low because of high capital investment and bankruptcy of trucking firms has further discouraged new entrants (Rommel, 2004). • Internet is solely responsible for boom in trucking industry. More technological innovations like telematics, sophisticated supply chain systems will help industry become more cost effective. •Globalizationis important to the extent of consumer base for trucking industry; its competitive edge against substitutes is its ability to remain geographically concentrated.

• The costs have increased because industry is increasing capacity but efficiencies are still low as human capital turnover is very high and labor is not readily available (Hebe, 2000). • The buyer preference remains to be on core commodity but demand for delivery reliability and efficiency has also increased. • Industry has been de-regulated to encourage growth. However, taxation has increased phenomenally over the years (Fox, & Zadecky, 2006). • Human resources are most affected in this case by changes in lifestyle and result has been high turnover.

Companies are now investing in sophisticatedtechnologythat maintains a driver’s quality of life over long journeys (Hebe, 2000). • Bankcaruptcies has caused insurance companies to increase risk premiums of trucking industry a few years back (Rommel, 2004). However, the risk factor is now mitigated due to high growth potential of industry. 4. Companies in the Strongest/Weakest Positions - 20 percent Savage Industries • The firm has positioned itself as materials management and transportation management company that customizes solution for each customer. • Savage Industries are market leaders in industry 41% share.

• Their strategy is to offer customer best service with optimal value. • It differentiates itself on quality and customized services that it provides. GE Fleet Services • The firm has positioned itself as specialist of fleet management. • It has 14% share of overall market revenue. • The firm’s strategy is to capitalize on its trained personnel and using GE’s global name. • The quality of GE’s service is higher then its counterparts. Schneider National Inc. • The firm positions itself as a company that gets it customer 100% results. • It is amongst the top 5 companies of industry with 9% share.

• SNI’s strategy is offer complete logistic solutions for its customers. • The product line is very wide and the company offers services like inter-modal transportation and international sales team. 5. Industry’s Attractiveness and Prospects for Long-Term Profitability - 20 percent Analysis of the industry’s attractiveness must include: • Growth Potential: Customer trend for making online purchases and increasing GDP are indicators of high growth potential of industry. • Competitive Forces Strengthening: The competitive forces are not likely to strengthen over time because their weaknesses are un-avoidable.

• Effects of Driving Forces: The driving forces mentioned above are likely to increase profitability specially technological innovation has major part to play. • Which company's strategic position will improve/decline, • Insulation From Unattractive Forces: Firms can work on their strengths and at the same time attack the rivals weaknesses specially smaller rivals. • Uncertainity and Severity of Problems: Level of risk and uncertainty in industry is fairly low. The only problem is adequate human resources which most firms are trying to counter effectively by training their personnel and improving technology.

• Which types of firms/strategies seem to be most lucrative, • Industry Attractiveness: Trucking industry requires high capital investment but its increasing growth potential and low threat of substitutes makes it an attractive industry to participate.

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