Five forces of competition model

Business

Five Forces of Competition Model: The Railroad Cargo Industry Michael Porter identifies five forces that actively affect an organization's competitive advantage (Hill & Jones, 45). The railroad cargo industry facilitates the transportation of merchandise using railway networks. The industry remains stable and essential in the current industry. Porter's first force considers competitive rivalry. Players in the railroad industry enjoy dominance in the market as they remain relatively few. However, the competitive force in the transportation industry created by alternative transportation systems such as water and air transport threaten the industry. The second force considers the threat created by new market entrants. The railroad business requires huge capital in starting a business operation. Moreover, potential new players lack access to land that is essential for the development of rail networks. The advancement of other transportation systems also hinder the widespread investment in this industry. For current players, the market remains stable as the rate of receiving new entrants is low.

The bargaining powers of buyers stands as the third force (Hill & Jones, 46). In the railroad industry, buyers possess little bargaining power. The charges incurred in transportation are a dictate of legal laws regulating prices. Therefore, buyers lack power in price control. Moreover, the importance of goods transported through rail such as agricultural products limits the bargaining power of the buyers. The fourth force suggested by Porter considers the power of suppliers. In the case of railroad transport, suppliers hold a significant power. Union Pacific Corporation notes that the companies in the trade over-rely on specific suppliers for locomotive parts. Consequently, the withdrawal of one of the suppliers serves as a major challenge for these players. Suppliers in this industry control major

processes of operation. The fifth force evaluates the threat of substitutes. The transportation industry offers substitutes in the shipping and air freight industries. Shipping costs significantly cheaper while air transport remains faster. However, railroads remain significant due to their large operations on the land. Their major substitutes primarily operate in the air and water. Based on this analysis, the railroad industry stands out as unattractive. Challenges of competition create substantial problems. Moreover, the high cost of operation and the power of suppliers makes the industry unstable and unsustainable by new players.

Bibliography

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