

# [Boom logistics analysis: porter's five forces model](https://assignbuster.com/boom-logistics-analysis-porters-five-forces-model/)

Main activities: Agricultural, entertainment machines coin operated, computer & peripheral, construction and office machinery or equipment hiring.

Major products: Access equipment, computers and peripheral, cranes, earthmoving, forklift, portable accommodation.

Main market: [2005-2010 industry growing revenues of 4. 9%] supported mainly by mining and secondary construction. One year from 2005 to 2006 75% (demand of commodities by China). Growth period boost stronger expenditure on mining and demand for heavy equipment hiring and leasing. However, adverse weather conditions in the first part of the 2007-08 year affected the mining industry and hence demand for heavy equipment hire and leasing. 31% increase 2008-2009 = $31. 6 billion.

## Industry Analysis (Porter’s 5 Forces)

To operated effectively an organization need to analyze the industry. On behalf of its industrial analysis, the organization needs to define or modify its strategy. Porter described 5- Forces for industry analysis to shape the strategy:

## Bargaining Power of Buyers:

In such industry bargaining power of buyers is really high. Normally buyers and mining companies and construction companies who tend to get into contract for long term. So they ask for specific and top notch service. To get into contract with crane companies, buyers pay huge amounts explained in annual report of Rio Tinto, 2009, which provide them high bargain power. Wilson, M 2010, explained that such sort of services can be easily copied and buyers can start their own logistics division Porter M. E. 2008. So to reduce such threats, companies tend to provide high bargain power to buyers. This high bargaining power of buyers makes industry less attractive.

## Bargaining Power of Suppliers

There are small number of big suppliers for example Caterpillar and etc which provide equipments like cranes, forklifts and etc. Such type of suppliers got high bargaining power. See Appendix 1. More over in case of financial assistance such industry is only available with Banks. As they need huge finances so only banks can assist them so industry got less bargaining power. But in case of Boom logistics they manufacture and service cranes as well. So bargaining power of buyers in terms on equipment for boom logistics is low, Boom logistics, 2010. But overall for industry the bargaining power of suppliers is quite high.

## Rivalry Among Existing Competitors

Some big players of the Plant Hiring Industry are not necessarily focused in Crane Hiring as its most important business unit; in fact they have a diverse portfolio where the crane business is – in some cases – just one of many operational units, Coates Product Portfolio, 2010. This Industry has myriad of players of very different sizes, some have just regional operations and just a few have nationwide operations.

The trend in the last years is that some medium sized companies are merging and some others medium and small have been acquired or are associated with some international players which find attractive to the Australian crane market, probably encouraged by forecast made by specialized associations for example Coates hire, acquired Allied equipments in 2005, Coates Media Release, 2005 (See Appendix 2)

Companies are competing majorly on basis of price the quote to win a contract, industry is already matured, products and services are standardized and there are high exit barriers, Wilson, M 2010 explained. Trends towards mergers are observed which shows the high intensity of competition among existing competitors. (See Appendix 1)

## Barriers to Entry:

As this industry supply machinery for industries such construction and mining, a variety and ease of use of the latest heavy machinery in optimal working conditions will be required, thus new entrants will have to deal with high costs in buying or leasing this machinery as well as high cost in maintenance which in most of the cases will guarantee their permanence in this industry. In addition, a well distributed service’s network and/or depots close to operations centers will be a plus to be successful in this industry. However, which is also important is that industry must have skilled personnel to operate the machinery required, thus having high skilled operators is also a must for this industry. In addition to that Industry is at its maturity on its life cycle because of high initial investment and medium profits. (See appendix 5)

High initial investment, high maintenance cost, large distribution network (See Appendix 4 for boom logistics), highly regulated industry environment, requirement of highly skilled labor, high switching cost, and mature industry, results in high entry barriers which makes industry less attractive (Coates hire, 2010, Boom logistics, 2010, Crane Safe, 2010 and CICA Association 2010)

## Threat of Substitutes:

Not substitutes found in this Industry, even though in case of emergencies, Helicopters cranes must be used instead. The price is much higher but if required can be used.

## Boom Logistics Strategy

According to Porter, 1998, on the basis of high or low attractiveness of industry, a company shapes its strategy to gain sustainable competitive advantage for high performance and profit. On the basis of less attractiveness of industry due to maturity at its life cycle stage, less profits, high regulations, increased trend of mergers, safety regulations, high bargaining power of buyers and suppliers, intense rivalry, Boom Logistics is operating under cost leadership strategy as they have won some contracts with big ventures like Rio Tinto and BHP (Reference from web of boom logistics)

## References

Boom Logistics, 2010, Range of Equipment, viewed at 30 August 2010 at http://www. boomlogistics. com. au/lifting-equipment-cranes-heavy-haulage-access. html

Coates Hire, 2010, Product and Services, viewed at 30 August 2010 at http://www. coateshire. com. au/Products/default. aspx? G= 2&t= 1

Coates Hire, 2005, Acquired Allied Equipments, Media Centre, viewed at 30 August 2010 at http://www. coateshire. com. au/ media-centre/default. aspx? G= 2&t= 1

CICA Association, 2010, One voice may echoes.

Marshal Allen, 2010, Crane Safe Engineering, Career Industry Council Australia.

Porter M. E. 2008. The five competitive forces that shape the strategy. Harvard Business Review, January 2008, pp 70-93

Rio Tinto, 2009, Strategy Delivery Growth, Media Release, viewed at 30 Aug. 10, at http://www. riotinto. com/annualreport2009/pdf/rio\_tinto\_full\_annualreport2009. pdf

Wilson, M 2010, Plant hiring or leasing in Australia, IBISWorld Industry Report L7743

## Appendices

## Appendix 1.

## Appendix 2:

## Industry Highlights:

## Main factors industry:

Commodity volumes more than commodity price (More important to this industry than commodity prices, are commodity volumes, and this needs to be kept in mind when assessing the relevance of the global financial crisis to this industry.) Page 4 “ it’s the amount of commodities being mined that has the most direct impact on the Plant Hiring or Leasing industry.”

Low growth expectative for 2009-2020 with flat demand, reason: unsolved structure problem in many foreign economies

Despite this, the volume commodities mined in Australia during 2009 remained strong

Demand will decrease due to less capital on mining and non-residential sectors compensated with government investment in infrastructure

Merger & acquisition during the last 5 years. One of them “ Coates Group” has 20% of the market.

[2005-2010] firms increased annually 5. 3% (ABS data and IBISWorld)

Entry of smaller players

Expansion of consolidated companies opening new branches close to new housing estates.

Merger and acquisition: Trends will continue growing into the future, such as National Hire Group acquired The Cat Rental Store business in 2004-05; and, Coates Hire acquired Allied Equipment for $127. 5 million in April 2005. Of note, National Hire and Carlyle Group acquired market leader Coates Hire in 2008, with each holding a 47% stake in the company. Coates Hire by National Hire and Carlyle Group in 2008. The largest player in the industry with market share 20%.

IBISWorld estimates that the number of establishments will increase at an average annual rate of 2. 3% over the five years to 2014-15.

However, IBISWorld estimates that industry value added has increased at an average annual rate of 3. 1% over the five years to 2009-10. In comparison, GDP also increased at an average annual rate of 2. 3% over this period. It is estimated that wages as a share of revenue have declined over the ten years to 2008-09, although profits and depreciation increased. PAGE 12

## External factors (drivers):

Capital expenditure in private and public sectors

Real household disposable income

Trends in the outsourcing of plant and equipment needs (highly capital intensive areas of mining, oil and gas, electricity and water, and other major infrastructure sectors)

Trends in the residential market from the construction, renovations and additions to areas (tradespeople, governments, mining and construction

Small coin-operated machines are sensitive to household disposable income

Options either purchase or hire/lease plant and equipment.

reducing maintenance costs

access to latest available technology

reducing capital investment costs

These factors will continue demanding over the next five years to 2014-15.

Factors likely to have boosted demand for this industry’s services 2008-09, but have become problematic since the Australian economy started to falter in the wake of the global financial crisis.

Business and consumer confidence is affected by GFC (Australian share market declines in 2008, but strong recover avoiding a technical recession, and unemployment remaining below the 8%) figure touted by the Federal Government during 2009. Good news for the Plant Hiring or Leasing industry with businesses operating more strongly than was feared

Global economic growth is set to remain sluggish during 2009-10, as the United States and Europe attempts to return to a growth trajectory. China has also experienced a slowdown, with exports from the nation weakening. The mining sector is expected to see relatively flat demand and commodity prices for the year, and mining company BHP Billiton announced early in 2009 that it would reduce employment numbers by 3, 400 in Australia in response. Despite the bad press surrounding the mining sector, and prices remaining below their 2008 peaks, the raw production volumes at major mines have remained largely unchanged into 2009-10.

## Similar industries:

K7330 Securitisation Vehicles in Australia: Units mainly engaged in leasing machinery, plant or equipment purely on a financial service basis.

L7741 Motor Vehicle Hiring in Australia: This industry hires vehicles intended for road use, which is a purpose that many customers of Plant Hiring and Leasing services also require.

## For additional information on this industry

www. abs. gov. auAustralian Bureau of Statistics

www. coates. com. auCoates Hire

www. kennards. com. auKennards Hire

## Source: Wilson, M 2010, Plant hiring or leasing in Australia, IBISWorld Industry Report L7743

## Appendix 3:

## Market segmentation

Households account 5. 7% of this industry market

Governments account 7. 4%

Largest markets are commercial businesses make up 84. 8%

Mining and major construction sectors represent two-thirds of the industry’s market (leasing or hiring of equipment)

The market segments serviced by hire companies include building and engineering construction, logging and forestry, government departments, industrial, mining and resources, manufacturing, maintenance, special events, and home handyman markets.

According to mining and construction equipment manufacturer Caterpillar, its global markets include mining (at around 22%), heavy construction (34%), as well as general construction, quarry, paving and compaction, forestry and waste (source: 2007 annual report)

Industry also provides services to residential market: new home building, renovations and additions or other equipment. It is exposed to trends in new house building, although housing renovations and additions market is also a significant source of revenue.

## Source: Wilson, M 2010, Plant hiring or leasing in Australia, IBISWorld Industry Report L7743

## Appendix 4

54 outlets for Boom Logistics all around the Australia which offer services including sale, lease and service.

## Source http://www. boomlogistics. com. au/Boom-Locations. htm

## Appendix 5