

Economic Sciences

ANALYSIS OF THE UKRAINIAN ENTERPRISE JSC "UKRZALIZNYTSIA" USING MICHAEL PORTER'S "FIVE FORCES" FRAMEWORK

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CHAPTER 1. GENERAL SYSTEM CHARACTERISTICS OF THE COMPANY

1.1 Current status of JSC "Ukrzaliznytsia"

JSC "Ukrzaliznytsia" commenced its economic activities on December 1, 2015. The company is the legal successor to all the rights and obligations of the State Administration of Railway Transport of Ukraine, as well as its subordinate enterprises and institutions that had the status of separate legal entities.

At present, the company provides 82% of freight transportation and almost 50% of passenger transportation carried out by all modes of transport. In terms of freight volumes, Ukrainian Railways rank fourth on the Eurasian continent, trailing behind railways in China and India, among others.

JSC "Ukrzaliznytsia" is registered on 21.10.2015 at the legal address: Ukraine, 03150, Kyiv city, Yezy Ġedroytsya Street, Building 5.

The head of the organization is Yevgen Anatoliyovych Lyashchenko.

The size of the statutory capital amounts to 229,879,115,000.00 UAH.

As of the last data update on May 12, 2023, the organization's status is "Not undergoing liquidation."

Ownership form: State ownership / ownership of territorial communities.

1.2 History and Development of JSC "Ukrzaliznytsia"

The first railway lines in Ukraine appeared at the end of the 19th century. In 1869, the first railway was constructed from Lviv to Przemyśl. In the following decades, the government of the Russian Empire continued building new railway lines, and in 1918, after the revolution and Ukraine's separation from Russia, the Ukrainian State Railways were established.

In 1922, the Ukrainian State Railways became part of the Soviet Union and became one of the main railway arteries of the country. After World War II, the railway was restored and expanded, but in 1991, after the dissolution of the Soviet Union, Ukraine gained full independence, and the Ukrainian State Railways came under the management of the Ukrainian government.

On December 14, 1991, the Cabinet of Ministers of Ukraine adopted a resolution on the establishment of the State Administration of Railway Transport of Ukraine, which was subordinate to six state railways. After the dissolution of the Soviet Union, Ukraine inherited 18% of the entire freight car fleet of the USSR, which amounted to about 278 thousand units of rolling stock.

In 2002, the development of high-speed traffic began. In July, the "Capital Express" was launched on the Kyiv-Kharkiv route, with its wagons produced at the "Krukovsky Wagon Works." The travel time of the express train was almost half that of regular trains.

In 2003, a high-speed train was launched on the Kyiv-Dnipro route, and gradually high-speed connections were introduced on other segments.

In 2015, the process of reforming the railway industry in Ukraine began, during which Ukrzaliznytsia was transformed from a state enterprise into a joint-stock company with 100% state ownership. In 2017, the subsidiary company "Ukrzaliznytsia-Logistics" was created, focusing on logistics services and the development of freight transportation.

In January 2017, the Cabinet of Ministers approved a new charter for JSC "Ukrzaliznytsia," which removed the Ministry of Infrastructure of Ukraine from being the governing body of the company.

In 2018, the company was transformed from a Public Joint-Stock Company into a Private Joint-Stock Company by the decree of the Cabinet of Ministers of Ukraine on October 31, 2018.

An important problem of the Ukrainian railways is electrification, which allows reducing transportation costs. From 1991 to 2013, approximately 2,500 km of railway tracks were electrified, and as of 2014, a total of 9,878 km (45% of the total length) were electrified.

However, due to the war in eastern Ukraine, Ukrzaliznytsia lost a significant part of its locomotive fleet (226 diesel locomotives and 68 electric locomotives), suburban and freight passenger cars, which remained in the occupied territory.

Since the start of the full-scale war on February 24, 2022, losses of railway infrastructure and rolling stock have exceeded 2.5 billion dollars.

1.3 Current Activities of JSC "Ukrzaliznytsia"

In recent years, JSC "Ukrzaliznytsia" has been actively modernizing its transportation fleet, improving infrastructure, and implementing new technologies. In 2021, the company acquired 6 new electric locomotives, 7 electric trains, and 20 diesel trains, and also carried out repairs and modernization of over 200 carriages.

The current course of the company involves further development of freight and passenger transportation, enhancing services, and improving the quality of services for clients. Additionally, there are plans to develop and implement new digital technologies and electronic services to simplify ticket ordering and payment processes, reduce the workload on personnel, and increase overall efficiency of the company.

In 2023, the company initiated a large-scale campaign for the Ukrainianization of railways, which involves renaming stations and replacing language signage on trains and kilometer numbering.

In practice, JSC "Ukrzaliznytsia" is a state-owned monopoly in the field of railway transportation. It is a joint-stock company, with 100% of shares owned by the state. The company is listed among the state enterprises that are not subject to privatization.

The company's activities include:

Main activity:

49.20- Freight rail transport

Other activities:

30.20- Manufacture of railway locomotives and rolling stock

08.11- Quarrying of ornamental and building stone, limestone, gypsum, chalk, and slate

25.11- Manufacture of metal structures and parts of structures

25.72- Manufacture of locks and hinges

46.12- Wholesale of fuel, ores, metals, and industrial chemicals

79.11- Travel agency activities

85.32- Vocational education

86.21- General medical practice

46.71- Wholesale of solid, liquid, and gaseous fuels, and similar products

47.30- Retail sale of fuel

49.10- Interurban and suburban passenger rail transport

- 49.31- Urban and suburban passenger land transport
- 52.10- Warehousing and storage
- 52.21- Support activities for land transport
- 52.24- Cargo handling
- 52.29- Other transportation support activities
- 56.10- Restaurants and mobile food service activities
- 58.19- Other publishing activities
- 61.10- Wired telecommunications activities
- 62.01- Computer programming
- 71.20- Technical testing and analysis
- 33.12- Repair and maintenance of industrial machinery and equipment
- 35.13- Distribution of electricity
- 41.10- Construction of buildings
- 42.12- Construction of railways and underground railways

CHAPTER 2. ANALYSIS OF THE ENTERPRISE USING MICHAEL PORTER'S "FIVE FORCES OF COMPETITION" MODEL

Michael Porter's concept of competitive environment has been expanded to allow companies to gain and maintain a competitive advantage in their core markets. This understanding recognizes that the battlefield includes not only direct competition but also interactions with various competitive forces such as suppliers, customers, and alternative products. By expanding Porter's framework, companies have more opportunities to enter other markets and make strategic decisions wisely. This concept provides an analytical tool for studying the competitive landscape of the industry and understanding the key factors influencing competition in this market segment.



 WallStreetMojo

Figure 1 - Michael Porter's "Five Forces of Competition" Model Source: Internet publication "Wallstreetmojo".

Let's apply the model specifically to JSC "Ukrzaliznytsia" (see Table 2.1).

Table 2.1 - Michael Porter's "Five Forces of Competition" Model applied to JSC "Ukrzaliznytsia".

The power of competition	Description	A threat to JSC "Ukrzaliznytsia"
1. Competition in the industry	There are several players in the rail transport industry that provide cargo transportation services. But the company remains a monopoly in Ukraine.	Low threat. But JSC "Ukrzaliznytsia" maintains its competitiveness in order to improve the quality of its services and reduce prices in order to maintain its market position.
2. The threat of new participants	High market entry costs and licensing requirements make it difficult for new players to enter the rail transport market.	Low threat. All the same, there is an opportunity to enter the market of new participants who can bring with them new technologies and innovations.
3. Pressure from suppliers	JSC "Ukrzaliznytsia" has several key suppliers that provide it with various services, such as the supply of fuel and spare parts.	Medium threat. Suppliers may increase prices or change the terms of cooperation, which may negatively affect the company's financial results.
4. Pressure from buyers	Clients of JSC "Ukrzaliznytsia" have limited options for choosing a provider of railway transport services.	Low threat. Customers don't have much choice, but at the same time, service prices and service quality are key factors in their satisfaction. Therefore, if JSC "Ukrzaliznytsia" cannot satisfy the needs of its customers, it may lose its market position.
5. Threat of substitution	There is a threat of rail transport being replaced by other modes of transport, such as aviation, road transport or water transport.	High threat. This threat is not the most significant, but JSC "Ukrzaliznytsia" must be ready for challenges and changes in the transport industry in order to maintain its competitiveness.

Source: Compiled by the author based on [2.1].

The table presented above, built according to Michael Porter's methodology, reveals key aspects of market competition for JSC "Ukrzaliznytsia." According to the obtained data, the main factors that can influence the company's competitiveness are the threat of substitution of railway transport by other modes of transportation and potential pressure from suppliers.

It is worth noting that the fact that JSC "Ukrzaliznytsia" is a 100% state-owned monopoly may reduce the risk of new competitors entering the sector. However, it should not be forgotten that competition in the transportation industry is equally fierce, and companies must continuously improve their services and enhance operational efficiency to safeguard their market position and maintain business stability.

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