2003-09-01

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Eoin Plant
Dublin Institute of Technology

Declan Allen
Dublin Institute of Technology

Edward Sweeney
Dublin Institute of Technology, edward.sweeney@dit.ie

Recommended Citation

Plant, E., Allen, D., Sweeney, E.: An Investigation of the Irish Road Haulage Industry's External Environment. Proceedings of the 8th Annual Conference of the Logistics Research Network, p.372-375. London, September 2003.

AN INVESTIGATION OF THE IRISH ROAD HAULAGE INDUSTRY'S EXTERNAL ENVIRONMENT.

Working Paper

Eoin Plant*, Declan Allen, Edward Sweeney.

*Dublin Institute of Technology.
Department of Transport Engineering,
Bolton Street,
Dublin 1,
Ireland.

Tel: +353 1 - 4023764
Email: Eoin.Plant@dit.ie

Abstract
The movement of goods is of critical importance to an economy, especially one, which is dependent on international trade such as Ireland. Considering Irelands distribution of manufacturing and other organisations throughout the country, many firms are dependent upon road haulage effectiveness and efficiency.

In recent times there has been somewhat of a growing unease in the road haulage industry in relation to increasing cost, squeezing profit margins even tighter. An understanding of the Irish road haulier's business environment would undoubtedly shed greater light onto their situation. The paper addresses this issue with an analysis of the industry's competitive environment.

The first step of the research methodology was an intensive search for pertinent literature, from which a limited amount of information was obtained. A confined amount of primary research was then carried out. Purposive sampling was used to establish the required respondents. The techniques used were the research conversation approach in combination with semi-structured interviews. Following this a structured postal questionnaire was issued to obtain quantitative statistics. The preliminary results of which are outlined.

The analysis identifies a number of issues within the Irish road haulage industry. The paper concludes with the findings that the Irish road haulage industry is at present a brutally competitive environment due to its fragmented nature and the power of its customers. It also identifies the need for further research in order to establish the validity of certain points and issues.

Keywords: Irish Road Freight, Competitive Environment.

Introduction

As Ireland is a peripheral economy on the edge of Europe that is also export driven (Indecon, 1999), the cost of transportation tends to be double that of its European neighbours when transport costs are considered in percentage terms of the buyers product's price (Forfas, 1985). The movement of goods is of critical importance to an economy, especially one, which is dependent on international trade such as Ireland. Its prominence is probably one of the lowest in the area of logistics and therefore its importance is underestimated in many cases. To speculate this is probably due to the movement of raw materials or finished products being taken for granted (Short, 1985).

However the use of JIT (Just-In-Time) has forced many organisations to look more in-depth at there transport suppliers. Considering Irelands distribution of manufacturing and other organisations throughout the country. It would prove extremely difficult to operate without road haulage and in a sense many firms are dependent upon its effectiveness and efficiency. This view is supported by Short (1985: 14) *"Good transport facilities can aid the development of areas of industries and can increase the scope of greater flexibility with regard to locational decisions and distribution systems. In a sense transport can almost be regarded as a factor of production, for without the ability to move materials into and out of factories production is impossible or pointless."*

Ireland's history with regards to road haulage is similar to that of our European counterparts (McKinnon, 1998), its past is based on regulation in order to develop stabilization within the industry. In the 1960's opinions in relation to regulation began to change, principally due to the relaxation of the regulatory framework in Great Britain (Short, 1985). The first liberalisation act in Ireland was introduced in 1971 principally reducing restrictions on commodities, the second in 1978, which relaxed the restrictions on the size of the haulage fleet. A report by the Transport Consultative Commission lead the Minister of Communications to liberalise the road haulage industry in 1984 subject to some qualitative controls.

Problem

Little research has taken place in recent years with regards to the Irish road haulage industry (Indecon, 1999). This paper aims at address this issue with particular reference to the operating environment facing Irish road hauliers. It pays particular attention to the affects of the *"Celtic Tiger"* (Irelands economic boom years of the 1990's) and the high level of inflation that appears to be imbedded in the Irish economy. Irelands economic boom was export driven, in order to maintain our competitiveness an effective and efficient goods transport system is need, especially if Ireland is to remain attractive to Foreign Direct Investment (FDI).

Research Approach

The first step of the research was an intensive search of pertinent literature to develop an understanding of previous research on hauliers.

A limited amount of primary research was carried out. Purposive sampling was used to establish the required respondents. The first technique used was that of a research conversation approach with a key informant in an informal setting. This allowed the respondent to talk about the main issues in their own terms and gave a good overall flavour in relation to the culture and behaviour within the industry.

The second technique used was semi-structured interviews of eight haulage operators. Questions were drawn up prior to the interview on macro industry subjects. These interviews took place on individual bases in a formal setting, in order to maintain the interview momentum the respondent's answers were recorded for later analysis.

A structured questionnaire was issued to a cross section of Irish road haulage hire and reward operators. The preliminary results of which are discussed.

Economic and Inflationary Pressures

The days of the *"Celtic Tiger"* are in the past. The slowdown in economic growth (Table 1) has repercussions for the haulage industry with regards to demand (Cooper et al, 1991). The slowdown has been particularly targeted at the manufacturing sector (Table 2) one of the main demand sectors of haulage services.

Table 1: Gross Domestic Product (GDP)

Year	*1999*	*2000*	*2001**
GDP-per capita Euro	23,971	27,175	29,820

Source: Central Statistics Office (CSO), Dublin, Ireland * = Provisional

Table 2: Annual % Change in Volume Output of Manufacturing Industries

Year	*% Change*
1998	+ 21.3
1999	+ 15.0
2000	+ 15.7
2001	+ 10.2
2002	+ 8.4

Source: Central Statistics Office (CSO), Dublin, Ireland

Inflation has also been running at approximately 5% for the last 3 years (Table 3), in particular, wage inflation has been running significantly ahead of this and insurance costs have been reported by hauliers of increasing by approximately 50%.

Table 3: Consumer Price Index (Base Mid-November 1996=100)

Year	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Overall Index	99.3	100.7	103.1	104.8	110.7	116.1

Source: Central Statistics Office (CSO), Dublin, Ireland

The combination of these factors increases the pressure on their profit margins. When considered in association with the hauliers fragmented structure, it proves incredibly difficult for hauliers to obtain acceptable levels of revenue. However considering the principle of deregulation, to increase efficiencies through opening up the industry to market forces, it seems to have achieved its goal. On the other hand a British Parliamentary report (House of Commons Transport Committee, cited in McKinnon, 1998: p. 219) advised that hauliers with unsound finances are increasingly likely to break regulations. There is suggestive evidence that this is the case in Ireland with some hauliers advising of having to break weight restrictions in order to cover costs.

Qualitative Study

Legislation requires hauliers who participate in hire or reward and whose vehicles are in excess of the 3.5 (metric) tones gross weight to obtain a Road Freight Carriers License. However it appears to only have a minimum impact on restricting entry into the industry. This license is obtained from the Department of Transport once a number of conditions are fulfilled. A Certificate of Professional Competency (CPC) is required by at least one person in the haulage firm. The Licensee must also be of good repute and state any relevant offences that have been recorded against them in the last five years. The licensee must also be of appropriate financial standing. That is, they must have 9,000 Euro for the first vehicle and 5,000 Euro for each additional vehicle at their disposal. Their vehicles must also be taxed and insured for hire and reward services (DPE, 1998). The insurance factor is the most significant, with many hauliers reporting a significant increase of between double and treble since September 11th 2001. However in general the cost of applying for the license is not substantial.

For hauliers involved with the carriage of dangerous goods, there is a substantial amount of funds required for training and the purchase of safety equipment. The weight restriction on vehicles could also be considered as an indirect barrier to entry. Many hauliers claim (in particular the construction sector) that they cannot operate profitably without overloading, hence they need to overload in order to stay in business (Primetime, 2002).

In general the higher the level of differentiation (a service regarded by customers as different and of higher value than the competition) the higher the barrier to entry. This is due to differentiation being associated with high levels of quality and customer loyalty. Research identifies that only 14% of hauliers provide warehousing and other value adding (differentiating) activities (Indecon, 1999). It can be seen from this research that differentiation is quite low and tends to be associated with larger firms. In turn not truly representing a barrier to entry.

The haulage industry is extremely fragmented reducing its negotiating power and in turn shifting that power over to the buyer's side of the scale. As there are many other operators, there is a wide choice of hauliers to supply the required service and little to prevent buyers from switching. As there tends to be no long-term contracts with smaller operators, who are the majority in the market, leading to the inference that there is no cost associated with switching hauliers.

The majority of firms are also similar in size, owner-drivers with fewer than five vehicles (Allen 1999). This has also lead to stringent competition as they have approximately the same amount of resources at their discretion. There is also empirical evidence of what many believe as unfair competition being generated from unlicensed hauliers. Unlicensed hauliers have lower overheads due to avoiding costs such as license fee, accountant/solicitor costs and lower insurance costs due to obtaining third party insurance or in some instances it has been reported that unlicensed hauliers have operated without insurance. Evidence also exists in relation to hauliers would obtain new business but are unable to deal with the increased workload subcontract to unlicensed hauliers.

Evidence suggests that during the 90's the industry was growing at a considerable pace, goods vehicles used for hirer or reward in 1999 carried double the amount in comparison to 1994, also the number of good vehicles registered increase at a substantial pace. (CSO, 2001).

Survey Results

Some results of the questionnaire are contained within, however it is prudent to note that these are preliminary and should be read with caution.

Hauliers were asked what was the biggest threat to there business. Increasing insurance costs was substantially ahead of the other responses. The second highest ranked response was increasing fuel costs, again hauliers showing concern with regards to their cost base. Surprisingly the threat of insufficient demand for services lagged substantially behind. With unlicensed hauliers and infrastructure coming in before it (respectively).

The high emphasis on costs maybe explained from the responses to another question. When asked to rank their firms barriers to improving competitiveness the highest response was that of unlicensed hauliers, however lack of bargaining power came in a close second place. This suggests that hauliers see increasing costs as a threat as they will have difficultly in passing these costs on to their customers and negotiating acceptable prices.

The survey also inquired as to whether the respondent ever considered closing the business, a staggering 67% advised yes, again they were asked their reason for not closing. The highest-ranking response was that of no other employment opportunities, followed very closely by outstanding hire purchase repayments. This suggests that there are barriers to exiting the industry, which is maintaining the industry's high level of competition.

Conclusion

Considering the current research available, it was found that the Irish road haulage industry (hire and reward sector) is a brutally competitive environment, characterised by low levels of profitability and an increasing cost base with little bargaining power. Planned further research and analysis will aid in the clarification of points previously outlined.

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