

Cartelisation in the Trucking Industry in India



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Rail – Road Share in India

	Rail	Road
Passenger	15	85
Freight	30	70

During the last decade, road freight has grown at a compounded growth rate of 11.9% compared to 1.4% on rail. Share of road in freight likely to stabilize around 85%.



Road Transport

- In the passenger business- public and private sectors are supposed to have an equal role.
- In freight business – almost exclusively handled by the private sector.



Recent Trends

- In recent years, freight movement by road has not kept up with capacity – leading to lower capacity utilisation.
- The utilisation has gone down from nearly 70% in the early 1990s to less than 60% in 2001-02.
- This has affected profitability of operators – though freight rates has gone up, fuel costs have trebled.



Trucking Industry Ownership Pattern

- According to GOI (1966) – about 89% of road transport operators owned one vehicle each .
- The proportion owning 5 vehicles or less was 98% .
- UN mission (1993) claimed 95% of vehicles belonged to operators who had less than 5 vehicles.

Truck Industry Ownership

(continued)

- CIRT study (1998) –
 - 77% of fleet under operators who owned 5 trucks or less
 - 10% belonged to those with 6 to 10 trucks
 - 4% belonged to those with 11 to 15 trucks
 - 3% belonged to those with 16 to 20
 - 6% belonged to those with more than 20
- This ownership pattern continues (Deloitte Study 2003).

- The unique ownership profile has resulted in middle men – booking agents and brokers.
- With Fleet Operators shifting to a non asset based model, dependence of SRTOs on middle men is increasing.



Market Structure

- Conceptually the presence of a large number of operators would lead us to infer that market is highly competitive.
- This indeed seems to be true in regard to general goods transportation – market forces determine freight rates.
- NCAER (1979) observed that due to intense competition, profitability was rather low in the case of SRTOs.

- In fact, GOI (1996) had been concern with viability of operators especially from the financial sector point of view.
- GOI (1980), Sriraman (GOI 1998) had contested this since exit was an option. On the other hand, supply of services had, in reality, increased.
- Does it mean that a competitive regime prevails ?

- Given the segmentation of both in terms of market supply and demand (players) – the emerging feeling is that there are some dominant elements especially in the case of specialized traffic where shippers are likely to dominate.
- At the next level, the fleet operators, and other market players like the middle men could be exerting a certain influence.

What do we want to do ?

Define a Cartel:

A cartel is a group of firms who have agreed explicitly among themselves to co-ordinate their activities in order to raise market price- that is, they have

Entered into some form

of price – fixing arrangements. Alternatively, there could be collusion in terms of fixing areas of operations.





Objectives of the Study

- To understand the supposedly competitive nature of the market for general road freight transport services with a view to examining the role of middlemen in fixation of tariffs and use of supply restrictions to derive some benefit.
- To look at the possibilities of a limited but possible dominating role in price fixation of the supplier of bulk services such as the fleet operator in the context of subcontracting orders to smaller operators to handle a part of the movement.
- To examine the role of bulk buyers of road transport services especially specialized services in the fixation of prices.

- **Setting – Mumbai Metropolitan Region**
- **Work plan :**
 - Surveys of SRTOs, FOs, Intermediaries .
 - Case studies of petroleum, chemical and pharmaceutical industries.
 - Financiers – Banks, NBFCs.
 - Developments of Analytical models of costing and pricing of road freight transport services.

Question : To find out whether there is cartelisation (of any type) in the trucking industry in India ?

The study so far..

a. A close look at the relevant literature and the material especially in the context of the industry in the United States, Europe, Japan and some developing countries.

(Though this may not be all that relevant, we have attempted to draw some insights from the deregulatory process that has been set in motion quite some time back and its impact on the market structure. Further, the organizational structure in some cases may be relevant in the context of determining the market structure.)

b. A review of work done on the industry in the Indian context- Studies, Reports of Committees, etc.- these number hardly a dozen.

(These have been useful to understand the evolving policy framework in regard to some of the dimensions such as the legislation, taxation and organizational framework within which the industry has grown.)

c. Have attempted to build up a model of costs of trucking operation in EXCEL format in order to provide a basis / bench mark for freight tariffs.

(This simple analytical model looks into the various cost components of fixed and variable categories. The objective is to provide a basis for simulation exercises in terms of a variety of situations which takes into account the loads, the distances, the fuel costs, the age of a vehicle, the capital costs, capacity, etc.)

d. Collection of data relating to freight rates from 2002 prevailing in case of point-to-point movements between Mumbai and some major cities.

(This data is available on a day to day basis. A weekly average would give us a fairly good picture of the fluctuations in rates. Preliminary observations reveal that fluctuations are not prominent and are confined to some data points. This may be the immediate impact of changes in fuel costs. We have examined this in some detail.)

e. Surveys have been undertaken in and around Mumbai and to a minor extent in Satara and in Goa. In Mumbai itself, operators, brokers and booking agents totaling about 75 have been interviewed. In Satara, about half a dozen of these players have been interviewed.

In these surveys we focused on certain issues like the nature of business, functions performed by the players, the area of operations, nature of market, degree of competition and the important problems faced by these players in this industry.

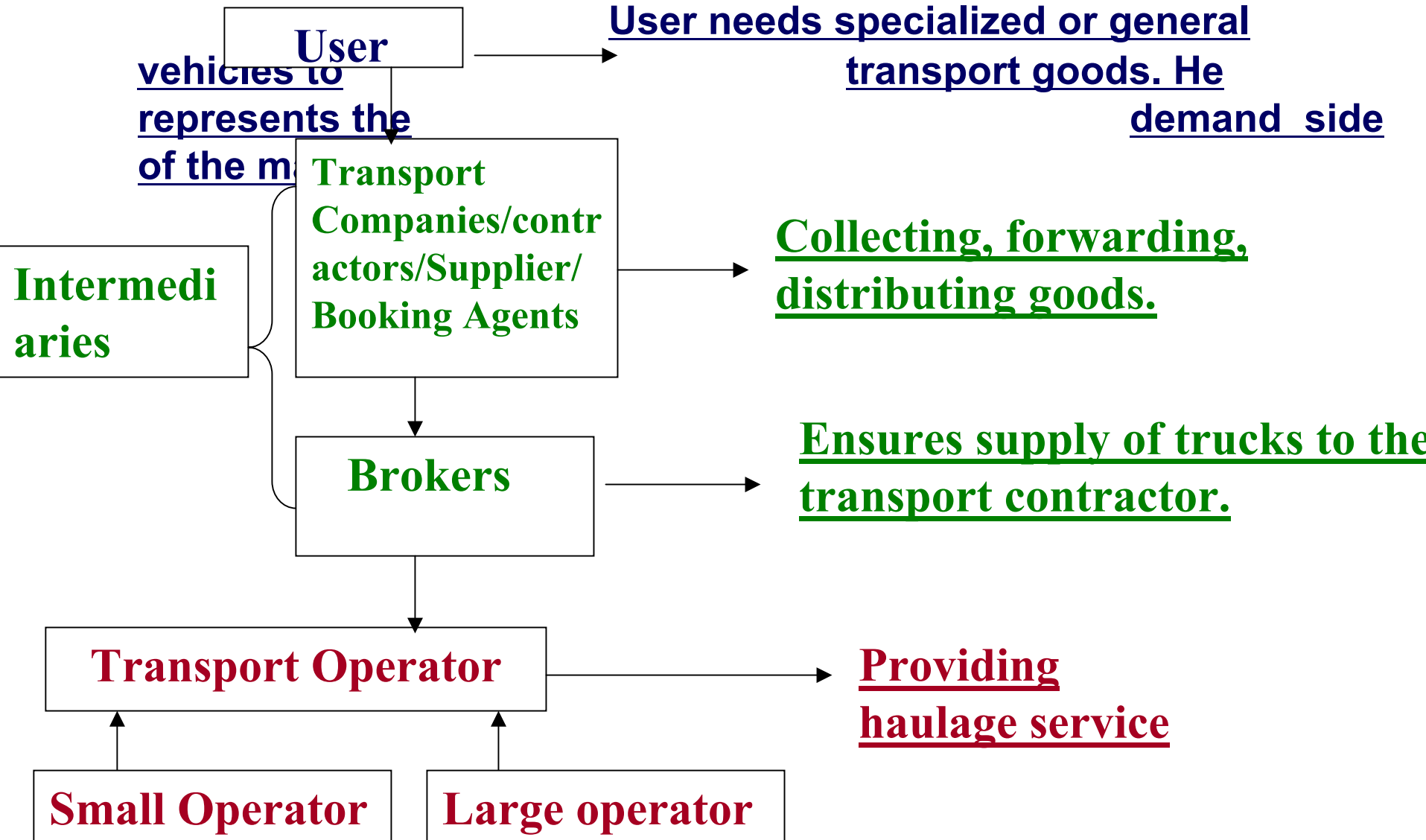
The structure of the industry

There are large number operators who are either single truck operators or small operators. This is a common feature observed in the above three regions. The number of big fleet operators having specialized vehicles or otherwise appears to be very limited. The small and to a limited extent the large fleet operators depend on the intermediaries for business. Let us now look at the different players in the industry. *Figure 1* gives the most general model of operation of the trucking industry.

Figure 1: Players and their functions

Players

Functions



Categories of players

➤ Users:

The users are typically expected to represent the demand side of the market.

➤ Intermediaries:

The intermediaries seem to play a significant role in the provision of transport services. These can be normally of two categories, namely,

Categories of players

(continued)

a) **Booking agents/Transport companies/transport suppliers:**

A booking agent is a person who represents the demand i.e. he negotiates on behalf of the users. He is responsible for collecting, forwarding or distributing goods carried by goods carriages.

b) **Brokers / Commission agents:** A Broker is expected to represent the supply side i.e. the truck operators. He takes a commission from the truck owners and ensures the supply of trucks to the transport company/-booking agent.

Categories of players (continued)

- **Operators:** Operators are expected to provide the services in terms of movement. These can be categorized as follows:
 - **Small Truck Operators:** This category includes single (or small truck operators owning 1-5 trucks) truck operator, which are very large in number.

Categories of players (continued)

This is the result of relatively lower capital requirement, ease of obtaining driving licenses and permits. Though the entry into this market is easy, information regarding availability of freight is a formidable problem. So there is dependence on the brokers who give them business. The small operators as can be seen from *Figure 1* just give the haulage service.

Categories of players (continued)

The small operators are involved mainly in the physical movement of goods and depend on brokers and other fleet operators who in turn depend on the booking agents for obtaining business. The small operators are not in a position to perform functions of aggregating, handling, delivering of cargo and marketing.

Categories of players (continued)

These operators do not have the geographical reach and necessary infrastructure to tap business on a continuous basis hence forced to rely on brokers. This was the feedback from all most all the small operators interviewed so far. Though the exit option also seems likely in regard to these operators, it is observed it is a very difficult one since there is no alternative to this work. Therefore, there is hardly any scope for easy exit.

Categories of players (continued)

- **Fleet operators:**

The Large fleet operators are small in number even in a region like Mumbai. The large fleet operators generally operate throughout the country, and have the capacity to even transport a single parcel in any part. These fleet operators primarily work on a hub and spoke model. Large operators are also in position to bid for the contracts with companies. They utilize the services of the smaller operators when they need to have additional vehicles.

Areas of Operation

There are some operators who operate at the local level only. Many more seem to be operating on specific routes on an inter-regional basis. Some others operate on a national basis. *Figure 2* gives this delineation.

Figure 2: Area of operation

- All India operation
- Route based operation (Inter-regional)
- Route based operation (Intra-regional)
- Local operation

1. All India operation:

In case of all India operations the transport companies play not only the role of operators but also the role of booking agents for other smaller operators. The geographical area covered by these operators is large and they have very wide network of branches throughout the country. Here we observe the hub and spoke model is likely to evolve as the market matures.

All India operation: (continued)

The large transportation companies are expected to increase their investments in setting up hubs across the country. The hub and spoke distribution system enables optimisation of costs and higher revenues for the transport companies/ fleet operators. These transport companies generally have formal contracts with the users, which is very rare in the case of small operators.

2. Specific Route based operation (Inter-regional)

It has been observed during the surveys that many transport companies/ agents /brokers /operators operate on certain specified routes such as Mumbai- in and around Delhi, Mumbai- in and around Bangalore, Jaipur etc.

Specific Route based operation (Inter- regional)

(continued)

The main factors responsible for this kind development are:

- Market expansion requires finance.
- Requirement of permits for operating in different states and costs involved in it.
- The requirement of staff and hence staff costs will be higher.
- Infrastructure (or offices at different location, information to establish contact for return trip etc.) is also a constraint.

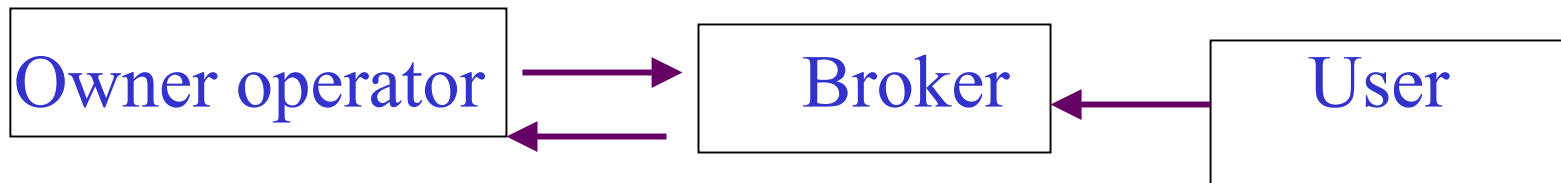
3. Intra-regional operation:

In this the operators restrict the movement to intra-state operations.

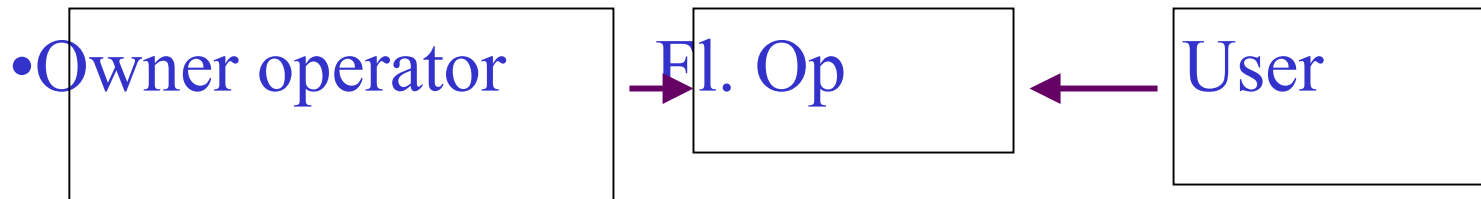
4. Local operations:

In this the geographical area is very limited i.e. only local operations. There are two models: one in which distances are small and the other in which they are longer. However, in the second model there is an influence of localised mode associations which appear to have an influence on price fixation. This is observed in Mumbai and Satara . The role of the intermediary is almost negligible. The users and operators are directly in touch with each other.

Interrelationships observed in surveys among players



Interrelationships observed in surveys among players (continued)



Thus, from the above different supply chain models one could possibly say that the market appears to be segmented on various basis, say as per area of operation, as per routes, i.e. operators as well as commission agents seem to have certain preferred routes. The preference for the area of operation is in general based on familiarity with the route, contacts on that route, infrastructure required, which in turn reduces associated risks.

This kind of market segmentation seems to have led to more powers in the hands of intermediaries as the information flow is accessible to the intermediaries only. Therefore these intermediaries seem to enjoy higher margins and most likely to be in a position so as to exploit the market situation. These intermediaries seem to be colluding with each other and the freight rate as well as the conditions and terms of freight seem to be highly influenced by factors that favor them.

Basically, the industry is characterized by skews- large number of operators and users and sufficiently large number of intermediaries between these two players. The question – what are the agreements between the various players ? Some are formal while most seem to be informal . These informal agreements appeared to be often highly iniquitous as a direct consequence of the intermediaries' access to information.

The power in terms of price fixation that these intermediaries seem to be exerting on the industry appears to be not quite related to their efforts in terms of investments etc. Accordingly the hypothesis is that there is an imbalance in terms of the revenue that is being shared. The implication – the regulatory framework needs to bring these under its purview.

➤ At this stage -

“Other than rejecting the extremes of monopoly and perfect competition, one is not left any the wiser as to the appropriate economic model to build to describe the trucking industry”.

(Quoted from **PANZAR AND ROSSE STYLE TESTS OF MARKET STRUCTURE IN THE U.S. MOTOR CARRIER INDUSTRY** By Ian Savage, Assistant Professor of Economics and Transportation. This paper appeared in *Logistics and Transportation Review* volume 31(2), pages 135-144, 1995.)