SUB-CONTRACTING IN ROAD TRANSPORT

A Note on some Seasonal Aspects of the Problem of the Peak

By John Hibbs

The problem of the peak has been studied largely in terms of the journey to work. The economics of the diurnal changes in traffic flow in road passenger transport were systematically examined by Mr G. J. Ponsonby in 19581. Peakiness in road transport, however, takes a number of different forms, not least being the seasonal/weekly peak of summer holiday traffic by long-distance coach. This traffic surge is met annually by a complex and largely ad hoc process of hiring vehicles from other firms, since the limited number of licence-holders in the express coach sector could not economically maintain fleets large enough to carry all the traffic offering.

RAILWAYS AND ROAD HAULAGE

That the problem is not limited to road transport is indicated in the Beeching Report2, where the following figures are quoted for the year 1959:

- Total number of gangwayed coaches allocated to fast and semi-fast services: 18,500
- Of which: Number in year-round service: 5,500
- Additional vehicles for regular summer service: 2,000
- Available for high peak service: 8,900
- Under repair: 2,100

The report goes on to remark that, of the 6,000 least used coaches then in the British Railways fleet, 2,000 were required on not more than 18 occasions, 2,000 on not more than 14 occasions, and 2,000 on not more than 10 occasions. The annual cost of providing this marginal capacity is given as £3-4 million, and the shortfall of revenue after allowing appropriate receipts as £2-9 million. The Beeching policy of ceasing to provide for this high peak has since been carried into effect (without, it would seem, any great volume of complaint).

Professor Gwilliam has shown3 that in the road haulage industry peak demands

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are frequently met by the practice of sub-contracting, so that hauliers' fleets may run at full capacity and vehicles are not required to stand idle at off-peak periods. In the cases quoted arrangements are informal, although some of the sub-contractors are engaged on a fairly regular basis. It is a practice open only to the general haulier; the specialist carriers therefore tend to obtain a lower vehicle utilisation.

THE EXPRESS COACH INDUSTRY

The practice of sub-contracting is the mainstay of the express coach industry, which has successfully faced the problems of the seasonal peak since its emergence in the twenties. Other methods of control relied upon by coach operators include seat reservation, which enables them to 'stop booking' on an overloaded journey if required, and discriminatory charging, which has always applied to certain fares at weekends during the summer season. Seat reservation has the additional advantage of enabling the operator to forecast with a high degree of accuracy the level of traffic, both from the evidence of current demand and from the records of previous years.

The extent of the seasonal peak in the express coach industry is indicated by the following figures, kindly provided by Mr. F. W. J. Robinson, general manager of London Coastal Coaches Ltd., the proprietors of Victoria Coach Station. The monthly totals of departures from the station during 1969 were:

<table>
<thead>
<tr>
<th>Month</th>
<th>Departures</th>
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<tbody>
<tr>
<td>January</td>
<td>6,651</td>
</tr>
<tr>
<td>July</td>
<td>15,115</td>
</tr>
<tr>
<td>August</td>
<td>17,167</td>
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This seasonal peak is of course to some extent met by not licensing vehicles during the winter months and by adjusting fleet levels in the course of purchasing and disposing of vehicles. The real problem for the coach operator is similar to that described in the Beeching Report: the high proportion of summer travel which moves on a limited number of Saturdays. The normal weekday departures from Victoria in January 1969 amounted to 175, with a peak level on a Sunday of 254. In July the weekday level rose to 352, and the peak occurred on a Saturday when 926 coaches left the station. (Arrivals naturally balance departures, but their peaks do not always coincide.)

The figures quoted for Victoria are typical of the industry as a whole, with its all-year-round network supplemented by various services running more or less frequently during the summer months. The summer 1969 edition of the *ABC Coach Guide* lists 65 companies which together form the central core of the industry; around them lie a great many more smaller operators whose activities are of more local interest. Among the 65 at least, there can hardly be one that attempts to cater for the peak demand entirely by the use of its own vehicles.

The extent of sub-contracting is illustrated in the table, which is based upon figures provided by one of the "hard core" of companies. This operator is responsible for a small number of all-year-round services, together with a larger number of seasonal routes, some of which are covered only on Saturdays from Whitsun to the end of

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4The first true express coach service was that commenced by Greyhound Motors Ltd. between Bristol and London on 11 February 1925.
September. On a normal summer Saturday there would be 26 of the company’s own coaches in use; the table shows that subcontracting not infrequently adds as many vehicles again or more.

This level of subcontracting is repeated throughout the industry. As in Professor Gwilliam’s experience with hauliers, the arrangements are informal, but many subcontractors work regularly for the same operator each season. In coach work this may mean that the same drivers return each year to work the routes with which they are familiar, so that the principal operator is almost as well placed as if he had his own men on the service – an important factor in maintaining goodwill among passengers.

Sub-contracting in the coach industry is dependent upon the existence of a pool of small operators for whom the practice offers an economic advantage. Many of them probably find it easier to share in the profitable business of regular long-distance operation in this way than to attempt the hazards of obtaining their own licences; this is a not unimportant additional advantage to the larger firms. The typical subcontractor will probably be engaged in the day excursion and private hire trade, which flourishes during the summer holidays, and may well be providing works and school contract services during the rest of the year. The private hire and day excursion traffic does not generally amount to very much on Saturdays, partly because this is the very day when people are travelling to or from their holidays, and firms in this part of the industry are thus glad to find work on the days when they are most welcome by the “regulars”.

It might be thought that this dovetailing of peak and off-peak in different parts of the market could be exploited by the kind of regional operating board envisaged in the abortive Area Schemes of the former British Transport Commission. In fact there is evidence that this would not be possible, since the normal traffic of the subcontractors might well not be available to an operator with higher levels of cost at rates that would be economic to him. Reviewing the initial experience of the former Northern Ireland Road Transport Board, Sir William McClintock quoted allegations that the Board had driven private hire traffic away by raising its charges to

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6 See Public Transport in Northern Ireland, Cmd. (NI) 198 of 1938.
such a level that many customers could no longer afford to charter coaches for seaside outings. (The Board had a complete monopoly of bus and coach operating in the Province.) In the lower price range the demand for private hire of coaches is probably quite elastic, and the goodwill in such traffic is a notoriously evanescent asset.

LOWER COSTS IN SMALL FIRMS

There is little material available to measure or account for the cost differential between bus operators of different sizes, although the author’s experience in some ten years of management left him in no doubt of its reality. The following figures7 give some indication of the scale of the difference, and may be taken as broadly applicable, although they relate to experience in Northern Ireland as far back as 1935:

<table>
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<tr>
<th></th>
<th>Five larger operators</th>
<th>57 smaller operators</th>
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<tr>
<td>Gross traffic receipts</td>
<td>£521,316</td>
<td>£166,858</td>
</tr>
<tr>
<td>Expenses (including depreciation)</td>
<td>£486,278</td>
<td>£134,561</td>
</tr>
<tr>
<td>Net profit for year</td>
<td>£35,039</td>
<td>£32,297</td>
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The advantages of remaining small in the bus and coach industry probably lie quite largely in the field of fixed costs. Typical may be the sharing of premises and management and clerical staff between passenger and goods operation, or with other activities, such as car hire or the provision of a filling station; in any case, the very simplicity of bus and coach operation at this level will reduce the unit costs of the fleet in comparison with those of a larger firm. There is also the possibility of considerable flexibility in the use of staff, which mitigates the incidence of peak problems: proprietors habitually take out vehicles on busy days, and it is not uncommon for clerical and maintenance staff to hold PSV drivers’ licences; similarly it is possible for drivers and conductors to be given work in the office or workshop in between spells on the road. In the private hire trade a smart turnout will be reflected both in the prosperity of the firm and in the driver’s tips from his passengers, and so it is common practice for drivers to clean their own vehicles.

In terms of pay and conditions, it is almost unknown for small operators to be party to the national agreements negotiated by the appropriate trade union with the employers’ organisation (which in any event represents largely the nationalised operators). Despite this, the present state of the labour market must ensure that standards are broadly equivalent, and it has been the author’s experience that they are. There are however certain advantages open to the smaller operator. One is the ability to pay at a very simple flat rate, in contrast to the complex provisions of the national agreement, and so to simplify the preparation of the wage packets, with

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consequent administrative savings. But perhaps the biggest advantage that the small operator has in the field of employment is his freedom to use part-time staff.

The use of part-timers, which is frowned upon by the trade union, is of very real importance to some thousands of small bus and coach firms, and enables them to reduce their overall wage bill in two ways, drivers being taken on either for part of the day or for part of the week. In the former case, vehicles can be provided for factory and school contract services without having drivers idle throughout the day; in the latter, it is possible to keep vehicles for weekend peak purposes without the need to employ an equal number of full-time drivers. For the purposes discussed in this article, the latter advantage is of considerable importance, although in practice the part-timer will usually cover a “domestic” commitment on peak Saturdays, thereby freeing one of the “regulars” for the sub-contracting work.

Once more it may be argued that the right to use part-time labour could be negotiated by the larger companies with the union, and since 1967 the Irish state transport concern, Coras Iompair Eireann, has indeed done just this in order to fulfil its commitment to the Dublin government and provide transport for school-children throughout the Republic. But in the field considered here there are manifest advantages in the present arrangement, and the part-timer remains but one reason for the small firm’s lower costs.

We may therefore conclude that the continued ability of the express coach industry to operate profitably while overcoming the problems of a sharp peak on a limited number of days depends in no small measure upon the retention of a pool of subcontractors who, by virtue of their lower level of fixed costs, can flourish in the competitive world of contract hire, and that it is in the interest of their larger competitors that they should continue to do so.

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