

Fact Sheet

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An Efficient, Modern and Affordable Road Public Transport System

The Golden Arrow's Challenge

The structures and organisation of public transport in South Africa are still heavily influenced by the historical legacy of separate residential areas along racial lines. Spatial development in urban areas typically involved the formation of largely white, high-income, low-density residential areas and "satellite" low-income, high density black townships, with industrial zones often marking a clear separation between the two areas. In many cases, especially the larger South African cities, distances between such two areas can be significant (about 30km for example between Cape Town and Khayelitsha), so the need for efficient mass transit transport networks is evident. Yet despite considerable demand for public and commuter transport, especially from lower income segments, poor policy planning over decades has led to generally inadequate and unintegrated public transport networks around the country.

As is often the case in such situations, this vacuum in the market triggered the development of a huge, unregulated minibus taxi industry which started in the early eighties and has become a permanent player in South Africa's public transport landscape. But minibus taxis, however efficient and practical, cannot substitute for a properly regulated and integrated mass transit system. Stakeholders in the public transport arena have recognised these shortcomings over the last few years, and currently huge overhauls of public transport systems are

being prepared in major South African cities such as Cape Town.

This factsheet will look at how Golden Arrow, one of the world's oldest public transport companies and the main operator of scheduled public bus transport in Cape Town, is responding to the transformation of the public transport landscape and specifically how that impacts its core market at the base of the pyramid (BoP) income segment.

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"Not only can corporate and social needs be integrated, but the success of the developing world in improving its prosperity is of fundamental strategic importance to almost every company"

Prof. Michael Porter, Harvard

1 HCl annual report 2007

2 Department of Transport, Moving South Africa a transport strategy for 2020, 7.2: Passenger customers



1. Situational information

a. Corporate ID

Founded in 1861, Golden Arrow Bus Services (GABS) is one of the oldest transport companies in the world. Initially servicing high-income areas such as Sea Point, Hout Bay and Cape Town's city bowl, increasing car ownership in these areas from the 1950's onwards gradually shifted GABS's client base towards the lower income segments. Today GABS caters essentially for thousands of commuters across the greater Cape Town metropolitan area who need to be transported from their homes to their workplaces.

b. Case background

An estimated 2.8 million urban residents in South Africa do not have access to affordable public transport. Two thirds of these people live more than 20km from the city centre or places of work. Their transport costs are therefore extremely high. The White paper on transport services aims to bring transport costs down to a maximum of 10 % of poor households' disposable income. At this stage however, 70% of residents in these areas who can afford public transport spend more than 10% of their household income on public transport.²

Public transport in South Africa has generally been provided, operated and owned by the state, with the view to providing a social service. Cape Town is an important exception, with road-based public transport being provided by the private sector in the form of Golden Arrow Bus Services. This form of outsourcing, through the awarding of licences and subsidies to private operators, allows the provincial government to:

- Gain access to private funding for mass transit of passengers
- Gain access to private sector innovation and managerial skills
- Budget more efficiently with a known contract cost
- Prioritise other social services
- Stimulate economic development and extract taxes³

Most provincial road based transport contracts are gained through an open tender process to ensure efficient service delivery, minimal cost to the public and low subsidy costs to the provincial government.⁴ In Cape Town however, GABS's history in the market and large market share has resulted in the company being awarded exclusive, renewable short term contracts.⁵ The origin of this arrangement goes back to 1997 when the provincial government, pending the restructuring of public transport services, retained Golden Arrow's old contract in order

Key figures:

- No. of Employees: 2370 employees
- 260.000 passengers per day
- 2007: profits after tax of R84m (56.7% increase from 2006)¹

to ensure the least possible disruption to services.

South Africa's total bus subsidy in 2006 reached almost R 2.4 billion, and constitutes one third of the department of transport's annual budget⁶. Of that amount, GABS receives about 500 million or 21 % of the total national bus subsidy⁷.

Despite such substantial government subsidies and private sector funding, the public transport industry in South Africa faces enormous challenges in addressing the needs of the BoP income segment, many linked to the basic structure of urban spatial development mentioned above. This legacy, together with urban sprawl, add both traveling time and cost to low income communities. A recent study by the department of transport has found that the current public transport system does not meet customer needs in terms of travel time, level of choice, and cost. Adding that almost 50% of public transport users are dissatisfied with travel times, and only 10% of commuters have a choice of modes.

2. Reaching the BoP – the business case for GABS

The BoP as a natural market: By the very nature of the services it provides, there is a strong case for arguing that the lower income segments constitute GABS's natural market. GABS has accessed the BoP by keeping fares low and using its brand history to develop a service that is familiar and almost exclusive to the BoP. Clearly GABS can build on the expertise it has developed in serving this market. There still is,

³ Jack van der Merwe, Pr. Eng Chief Executive: Public Transport, Roads & Works: Gauteng Provincial Government, South African: Cities Network Transport Workshop & Lessons Sharing Event. 19 February 2004

⁴ The current tender procedure for awarding subsidized bus contracts is articulated in Section 47 of the National Land Transport Transition Act, 2000 (Act No 22 of 2000)

⁵ DAMMERT John, Corporate Development Manager, Golden Arrow Bus Services, Interview dated 25 June 2008

⁶ Department of Transport, Departmental Budget and Expenditure. www.transport.gov.za

⁷ Cape Argus: November 22, 2007 Thursday South Africa; Taxi Industry Set for Subsidies

however, considerable undeveloped potential in this segment: indeed a large group of urban dwellers are underserved in their public transport needs, and largely excluded from formal economic activity and are candidates for targeted subsidies and new routes. The department of transport estimates the size of this group to reach 3.6 million people by 2020⁹. Failing to reach this group impedes economic growth and its integration into the formal economy. It also represents a share of the market which Golden Arrow is more equipped to access than other modes of public transport, because of the flexibility of their routes and partnership with the local government. The BoP segment remains the main source of growth for GABS and the manner in which GABS responds to its needs will be crucial to the company's future.

Scope for service improvement: The BoP market is also looking for an improved offering on a qualitative level. A study by the department of transport found that 46% of low income public transport commuters were unsatisfied with the public transport offering¹⁰. The main sources of dissatisfaction relate to speed, price, and reliability. One explanation for the growing taxi industry is the speed and convenience of their service: this demonstrates the sensitivity of the BoP segment to transport time, even though Golden Arrows' fares are on average lower as a result of their subsidies: a 10km trip is subsidised by 31%, a 50km trip is subsidised 65%, and a 100km trip is subsidised by 71%¹¹. An improved qualitative offering is therefore very likely to bring back existing clients who have switched to minibus taxis, but also develop currently overlooked or underserved markets.

Opportunities provided by 2010 World cup : The 2010 world cup will place a logistical strain on GABS, but also provide an opportunity for the company to expand its fleet, and use their foothold in the market to gain from the expected 200,000 visitors¹² to Cape Town. To cope with the additional traffic the Provincial Government has ordered 300 extra buses¹³, which will be

integrated into the public transport system after the event.

The Integrated Rapit Transit System project: Recognising the shortcomings of the public transport offering in Cape Town, public authorities have seized upon 2010 to draw up a proposed plan for a huge overhaul of public transport in Cape Town. The restructuring aims to integrate rail, minibus taxi and bus, and both fare and ticketing systems. The proposed integration system aims to provide long term sustainable public transport in the city, and GABS will of course be hugely impacted by this plan.¹⁴ The BoP income segment will count among the main beneficiaries of planned improvements, as one of the strategic objectives of the project is for at least 75% of the population to have direct access to public transport within 500 metres of their homes.¹⁵

3. Challenges: Transport as a Medium of Social Equality

Golden Arrow operates within a very particular business environment. While it is run as a private company, its independence and autonomy, certainly more than in other industries, are limited by heavy government regulation and an unusual competition landscape.

Capital expenditure and operating costs: By the very nature of its business, Golden Arrow is a capital-intensive operation with high cash-flows. Bus fleets cost huge amounts of capital to acquire, operate, and maintain. Overhead costs are also very high and any slowdown or stoppage has an almost immediate effect on the firm's financial situation.

Government pressure and regulation: Golden Arrow's autonomy is sometimes limited by government regulation and restrictions. Since 1997 the main basis of the relationship between public authorities and GABS is the Interim Contract, originally supposed to last only for three years. This Interim Contract is still in place ten years later, and is currently renewed on a monthly basis. No new routes have been approved by government since 2002, despite considerable demand in some of Cape Town's new residential areas. The network that GABS operates is therefore not always strictly based on business considerations but also to an extent determined by political priorities. This hampers the company's

ability to do forward planning and makes efficient capital resource management very difficult. Bus designs and specifications are also determined by government rather than GABS itself, and this can create further issues as the bus types operated are not always ideally suitable for public urban transport.

Taxi industry and vested interests: The unregulated taxi industry has grown into the most serious competitor for traditional, regulated bus companies such as GABS. Today the minibus taxi industry forms an industry of its own, and represents vested interests which could be seen as an obstacle to the development of an integrated public transport solution. Given its success, however, and the considerable amount of livelihoods that depend on it, the minibus taxi industry will have to form part of any integrated public transport plan.

Crime and security: Crime and insecurity have a big impact on GABS as it partly operates in high risk areas almost around the clock. There is an additional operating cost involved in providing protection to staff and passengers in the form of security guards, and reinforced, protective cabins for bus drivers. Of course addressing the causes of crime does not form part of Golden Arrow's mandate, but it has an obvious business interest in taking preventive measures both on its vehicles and on around the boarding facilities.

4. The Response:

In terms of improving its offering to the BoP and developing its natural market, Golden Arrow has recognised the need to:

- Improve its corporate image
- Improve service delivery
- Launch initiatives specifically directed at the BoP and economic empowerment of formerly disadvantaged people
- Form a decisive part of the strategic plans to re-organise public transport in Cape Town

Two types of initiatives are bringing mutual benefits to GABS and low income communities: one is the outsourcing of specific routes and networks to subcontractors as part of Golden Arrow's BBEE (Broad-based Black Economic Empowerment) targets; the other is the sale of clipcards through a network of township retailers and micro-franchisees.²¹

As part of its commitment to the empowerment of formerly disadvantaged

8, 9, 10 & 11 Department of Transport, Moving South Africa a transport strategy for 2020, 7.2: Passenger customers.

12 Cape Argus: Africa News August 8, 2007 Wednesday South Africa; 2010 Invasion Has Organizers On the Hop.

13 HCl annual report 2007 p12

14&15 CITY OF CAPE TOWN, Cape Town integrated Rapid Transit System, Project overview, June 2008

16 GOLDEN ARROW, "Optimism fuels challenges in the bus industry", Interchange, Quarterly Journal for friends of Golden Arrow Bus Services, Vol. 17, 1 March 2008, p1

17&18 DAMMERT John, Corporate Development Manager, Golden Arrow Bus Services, Interview dated 25 June 2008

19 GOLDEN ARROW, "Crime and Public Transport comes under the spotlight", Interchange, Quarterly Journal for friends of Golden Arrow Bus Services, Vol. 16, 3 September 2007, p2

communities, GABS has outsourced 19% of its total turnover to BBBEE subcontractors. The biggest of these is Sibanye, a joint venture company between Siyakhula Bus Services, Abahlobo Bus Services and Golden Arrow Bus Services established in 2001. Sibanye operates the Atlantis routes as a subcontractor to Golden Arrow, and has enabled 52 small operators to participate in the transport field as well as enabling the transfer of skills to the participant.

Golden Arrow has also begun micro franchising weekly bus tickets, known as clip cards. The programme offers employment to 22 individuals who sell the tickets from strategic locations in the townships and city. The Clipcard agents collectively generate almost R1 million in revenue per year or R3700 each per month.²¹

In addition to these initiatives, the Golden Arrow Foundation was established as a community development trust in 1994 when the directors of Golden Arrow set out to donate 50% of the company's shares to the community. The foundation was incorporated into the HCI Foundation in 2005 when the investment company acquired Golden Arrow. The HCI foundation now has access to R300 million annually to invest in community development initiatives.²² Aware of the need to improve its image, GABS has also been increasing efforts to reach out to its natural market and improve its own knowledge and understanding of the needs of its main client base. Commuter forums have been established, enabling customers and representatives of GABS to discuss service issues, exchange information and improve relations.²³ GABS have also implemented a training programme for their drivers called 'Free to Grow', which trains drivers in interpersonal relationships, and aims to provide more professional customer service.²⁴

As another recent sign of an improved offering to the BoP, GABS acquired and launched 110 new MAN explorer buses in 2007, at a cost of 120 million.²⁵ The new model buses have been well received by the public and improved the standard of service and level of comfort offered to their passengers.

20 & 22 HCI annual report 2006 p11

21 Golden Arrow Presentation, 05/06/2008

23 Golden arrow website: Operational Development

24 HCI annual report 2007 p12

25 Business Day: October 11, 2007 Motor News Edition; Arrow hits mark in major upgrade.

26 DEPARTMENT OF TRANSPORT, REPUBLIC OF SOUTH AFRICA, Draft National Land Transportation Bill, Presentation to portfolio committee, June 18, 2008.

Conclusion

Public transport in South Africa is a political as well as an economic issue. As has been seen, after many years of relative stagnation and inertia, the stakeholders are beginning to address shortcomings and considerable changes are in the pipeline across the country over the next few years. The new draft national land transport bill that is currently under discussion in parliament is expected to form the cornerstone of this reorganisation.²⁶ There is no doubt that considerable scope for improvement still remains however, both in terms of the offering and changing the general mindset in South Africa with regards to public transport.

The importance of low cost mass transit solutions is vital to the BoP segment, but it is clear that efficient transport systems also hold economic benefits for the economy as a whole in the form of improved productivity and a more efficient allocation of resources. In an environment where rising fuel costs are beginning to put a palpable strain on the economy, public forms of transport are also fast becoming attractive over the use of personal cars even for middle and upper income segments. In this sense, higher fuel costs

actually constitute an opportunity for a company such as Golden Arrow: higher passenger numbers will increase turnover, income and infrastructure investment.

The next few years will hopefully see a huge paradigm shift in the mass transit landscape in South Africa, and the BoP will constitute the main customer base and beneficiary of this change. Public transport, perhaps more than most other economic sectors, will provide a convincing example of just how much economic interdependence there is between income groups in South Africa.

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