



Autopax Passenger Services (SOC)

Turnaround Plan / Strategy

(Towards making Autopax work)

2020 -2024

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List of Abbreviations

CSI	Customer Satisfaction Index
ICT	Information and Communications Technology
NDP	National Development Programme
NTMP	National Transport Master Plan
SOC	State Owned Company
VOR	Vehicles Off Road

1. Introduction

Autopax Passenger Services (SOC) Ltd also known as Autopax is a wholly-owned subsidiary of the Passenger Rail Agency of South Africa (PRASA). The company derives its mandate from the Shareholder's compact. In addition, the company also manages the PRASA Group's bus business with the mandate to grow the market share, expanding the business and create shareholder value.

In terms of the Legal Succession Act, Autopax exist to service the primary mandate of PRASA which is, provide in consultation with the Department of Transport, for long haul passenger rail and bus services_within, to and from the Republic in terms of the principles set out in Section 23 of the Legal Succession Act.

PRASA has further mandated Autopax to provide feeder services to Metrorail Operations.

Autopax also exist to support PRASA Rail Operations in cases of emergencies and occupations.

The Autopax turnaround plan is aligned to the PRASA Get on Track strategy which makes reference to the sustainability of Autopax which has also identified key structural and policy interventions that should be reviewed so that Autopax can be self-sustainable in the next 3 – 5 years. These are:

- Autopax Mandate
- Autopax business and operating model
- The Divisionalization of Autopax
- The funding model for Autopax
- The transfer of key assets to Autopax from Transnet.

These key strategic interventions that are included in the PRASA Get on Track strategy with time frames and are dealt with in the Autopax Turnaround plan.

2. Purpose

The Autopax Turnaround Plan has been developed to improve **reliability, availability, predictability and safety (RAPS)** of the services with a view of ensuring a consistent, efficient and effective operations leading to financial sustainability and improved customer centricity.

This will contribute to the delivery of the overall PRASA Turnaround Strategy and sustainability of the organisation. The Autopax Turnaround Plan identifies the different focus areas and action plans to be executed by Autopax.

The Autopax Strategy seeks to achieve the following:

- Effective delivery on PRASA's Primary mandate.
- Deliver quality, safe and reliable service in SA and SADC member states.
- Create Shareholder Value.
- Operational Excellence.
- Capacitated, Committed and Performance Driven Employees.
- Financial Viability and Sustainability.
- High Levels of Customer Centricity.
- Contributing to Socio-Economic Policies of Government.
- Corporate Governance.

The purpose of this plan is to outline Autopax's vision, mission and to present a holistic long-term strategic approach to the company's ambitions of being a leader in long distance road bus passenger transport solutions.

Autopax's Vision is supported and enabled by strategic goals and objectives, a timeline and recommended interventions for reaching the intended outcomes.

While **the 5-year Turnaround Plan** is based on a 5-year horizon, it is a requirement of proper planning that annual objectives be set which cumulatively over the five-year period will deliver the desired outcomes.

3. Executive Summary and Background

Autopax is a wholly-owned subsidiary of PRASA that operates 2 Brands – Translux and City to City. Our service offering includes Long distance, Charters and Rail support services. Autopax derives its mandate from the Shareholder’s compact and aims to create shareholder value by growing the market share and business expansion. The Company services the primary mandate and the main business of PRASA in terms of Section 4 of National Land Transport Act, 2009. Autopax supports and contributes to PRASA’s Get on Track Strategy.

Autopax has ambitions of assuming leadership in the long distance road passenger transport solution. This is supported by Autopax’ mission of providing a preferred, sustainable, high quality, seamless and affordable road passenger transport services.

Autopax has been faced with a number of operational and leadership challenges in the past three years. The instability at management and leadership level has had a direct impact on continuity and ability to turn the business around at the speed required.

Autopax is currently struggling to meet the ever-increasing passenger expectations for high quality affordable and reliable service and this is evident in the decline in customer satisfaction index.

This turnaround plan is necessitated by several business challenges that confront the company today. In the process of crafting the plan that will return the company to a financially sustainable level, the leadership of the business is confronted with the challenge of effectively managing the current business whilst creating and implementing the future Autopax business strategy based on this turnaround plan.

3.1 Autopax Business challenges:

- **Declining and Fleet status:** The age of our fleet and the inadequate fleet management regime has led to unreliability of Autopax services. More than 80 % of operational buses are between 600 001 – 1 000 000 kilometres. This has resulted in an increase in maintenance costs and bus availability has reduced to below 30% which also puts a strain on the operations. Key to the long-term strategy is the refurbishing and buying of new busses and the procurement of new engines so as to remain competitive and to offer a safe, reliable service.
- **Decline in revenue and passenger numbers:** The Company finds itself financially distressed and facing major cash flow challenges. The business is not generating sufficient revenue and cash flows to cover monthly financial obligations. Less than 60% of the monthly costs are covered by the revenue generated on a monthly basis. Additional to that, at the end of January 2020, the organisation is carrying a high historic debt consisting of approximately R 196.6 m for external suppliers and an internal debt of R 1,032.0 m that is putting strain on the business. Passenger numbers have declined from 2.9 m in the past 5 years to less than 2 m in 2018/2019. This has resulted in lost market share.
- **Decline in Customer Satisfaction Index (CSI):** Autopax has experienced a decline in the Customer Satisfaction Index which primarily measures customer experience at all touch points. This has declined from 77% in 2014/2015 to 58% in 2018/2019. Customer experience determines if those customers will use your service again and it has a direct impact on the declining passenger numbers and revenue.
- **Unsustainable cost structure:** The companies' cost structure is currently unsustainable. Key cost drivers such as Employee costs as a percentage of total cost has increased from 37% in 2016/2017 to 47% in 2018/2019. This is mainly due to the negotiated salary increase which has been above CPI at 9% for the past 3 years. The number of employees has declined but the cost has gone up over the years. Diesel representing 23 % of total cost has also increased substantially over the last few years, this is due to the fluctuation in the exchange rate and increase in fuel prices. This also applies to the costs repairs and maintenance costs because spares are also affected by the exchange rate.

Optimisation of costs is one of the short term key levers of the strategy and it focuses on the major cost drivers as mentioned above.

- **Unstable and outdated Information and Communications Technology (ICT):** Unstable ICT environment is a challenge within the business. This directly impacts all areas of the business, including operations, technical, sales, procurement, Human Resources etc. Most of Autopax processes are manual and this exposes the organisation to fraudulent activities and inefficiencies. Autopax operates amongst other things, without the required ICT systems to support the business and to carry out basic operational requirements. These challenges include, but are not limited to - inadequate fleet management & monitoring, poor revenue collection & protection systems and inadequate inventory & materials management.
- **Legal Challenges:** Currently, the organisation is faced with several legal challenges which have a potential of worsening the financial position of Autopax if they materialise.
- **Pilferage:** There is an increase in the number of people being dismissed due to ticket irregularities enroute and in the sales offices. A number of system related challenges have been identified whilst dealing with disciplinary and behavioural issues.

How did we get here?

During the 2014/2015 financial year the company posted a small profit of R7 920 829. 00, however in the following three years the company made huge losses. The profit can be attributed to a number of cost cutting exercises that the business embarked on which were later reintroduced. It is projected that the company will post a loss of over R300m at the end of the 2019/2020 financial year. It is clear that the challenges that the company is currently experiencing today are a manifestation of what happened since 2015/2016 financial year and before 2014/15.

Management has taken time to reflect on the above and concluded that the following are some of key reasons the company has deteriorated over a period of time.

- **Leadership Instability:** The business is operating with a number of acting executives' in critical positions and has changed CEO's 5 times in the past 4 years. This has also resulted in the compression in roles due to the fact that managers are then required to execute and perform roles at the lower levels with little or no capacity to delegate.
- **Commuter operation:** In the year 2015/17, Autopax was requested by the Gauteng Department of Transport to take over 8 commuter contracts that were dumped by PUTCO. These included Mamelodi, Evaton and Voslorus. This operation had a negative impact on the fleet of Autopax and financial sustainability due to multiple mechanical breakdowns.
- **Lack of technical leadership and strategy:** The Company has overtime lost individuals with core technical expertise, most of these positions have not been filled or replaced with the right skills due to cash flow challenges in the business. The business also has a number of employees in management and at critical junior level functions without core technical skills.

This challenge permeates in a number of areas in the business including the collapse of the fleet maintenance regime in the Technical Department. The high number of the fleet breakdowns points directly towards lack of core high level technical skills in the business.

This situation has also been very prevalent in the operations planning environment like bus scheduling and dispatching which is at the core of any bus industry operations. Due to cash flow challenges, the company has not invested in people development to curtailing this challenges.

- **Lack of effective employee skills development:** The Company has overtime invested less and less in employee skills development as well management & leadership development due to cash flow constraints. This impacted a lot on the skills in the company across all levels of the business. The company was previously accredited as a fleet repairer by various Original Equipment Manufacturers, this accreditation has

since been lost. The issue of ineffective employee skills development is also prevalent in all spheres of the business.

- **Performance management:** The Company has implemented performance management in 2018/19 and need to inculcate the culture of performance management to hold people accountable. Service providers are also made to account on poor service delivery through supplier performance management process.

Reference Framework and strategic approach

When developing the Autopax turnaround strategy, Management utilized a number of sources for reference purposes and these were used to guide the Autopax strategic approach.

- **Environmental assessment:** In formulating the Autopax turnaround plan, Management conducted an extensive assessment of the different functions of the business and identified key strategic focus areas.
- **Benchmarking:** Parallel to that, the organisation conducted a desk top benchmarking exercise against a global bus operator, FlixBus, to determine best practices within the industry and learn from the best in the industry. The organisation also engaged key local players such as Gautrain and Airports Company South Africa (ACSA).
- **Get on Track:** PRASA has an approved strategy that includes Autopax. In formulating this Autopax turnaround strategy, reference is made to the Get on Track strategy whilst seeking to align the strategic direction to that of the Get on Track strategy.

This turnaround strategy is premised on the approved Autopax vision 2021 plan which finds expression in the Get on Track strategy. This strategy seeks to build on the vision 2021 strategy so as to be more relevant to the current environment.

3.2 Legislative Mandate

The crafting of the Autopax turnaround strategy takes cognisance of the legislative environment within which the company operates with specific reference to the following:

- ❖ The National Land Transport Act (Act 5 of 2009).

- ❖ Legal Succession Act of South African Transport Services (SATS) Act of 1989 *as amended*.
- ❖ National Land Transport Transition Act (Act 22 of 2000).
- ❖ Public Finance Management Act (Act 1 of 1999)
- ❖ Companies Act (Act 71 of 2008)
- ❖ Labour Relations Act (Act 66 of 1995)
- ❖ Employment Equity Act (Act 55 of 1998)
- ❖ Basic Conditions of Employment Act (Act 75 of 1997)

3.3 Vision, Mission and Values

Vision: To be the leader in road passenger transport solutions to the nation and SADC member states.

Mission: We provide preferred, sustainable, high quality, seamless and affordable road passenger transport services.

Values: Autopax aligns with the values of PRASA being:

- ❖ **Fairness and Integrity** - Treating our customers and our colleagues the same as we would like to be treated.
- ❖ **Service excellence** - Provide the kind of service that ensures that our customer leaves with a smile.
- ❖ **Performance driven** - Developing the ability to venture into new breakthrough areas of opportunity whilst offering quality products to our customers.
- ❖ **Safety** - Ensuring our customers and colleagues enjoy their journey and arrive safely and refreshed.
- ❖ **Communication** - Sharing information with our customers and colleagues in an open and honest way.
- ❖ **Teamwork** - Working together with our customers to achieve a common goal and recognising each other's worth.

3.4 Critical areas of the business covered by the Strategy development:

#	Area of business	Focus areas
1.	Technical	<ul style="list-style-type: none"> ✓ Fleet status and availability ✓ Road and passenger safety ✓ Fleet maintenance/Roadworthy fleet
2.	Route Network	<ul style="list-style-type: none"> ✓ Domestic Route network ✓ Establish and strengthened presence in Swaziland, Namibia, Botswana, Lesotho, Mozambique and Malawi.
3.	Product offering	<ul style="list-style-type: none"> ✓ Long distance operation (including cross border) ✓ Charter operation ✓ Rail support
4.	Operations	<ul style="list-style-type: none"> ✓ Customer Experience ✓ Operational efficiencies ✓ On Time departures and arrivals ✓ Reliability and predictability
5.	Organisational structure and Personnel	<ul style="list-style-type: none"> ✓ Lean and flat organisation (Market driven). ✓ Develop business aligned employee skills plan ✓ Socialise defined HCM processes to ensure consistent application ✓ Standardise HCM governance structures in line with defined mandates and accountabilities ✓ Automation of HCM processes to run on technology enabled platform ✓ Tailor-made ICT platform for Autopax.
	ICT improvement	<ul style="list-style-type: none"> ✓ Network availability ✓ Revenue system (collection and protection) ✓ Cashless environment ✓ Removal of manual tickets ✓ Operations Module (Rostering and Scheduling) ✓ SAP Maintenance
6.	Sales and Marketing	<ul style="list-style-type: none"> ✓ Product offering - segmentation ✓ Dynamic Pricing ✓ Route profitability ✓ Customer service ✓ Stakeholder management ✓ Review of sales channels
7.	Shareholder support	<ul style="list-style-type: none"> ✓ Recapitalisation of Autopax ✓ Settlement of historic debt ✓ Divisionalisation of Autopax ✓ Transfer of Assets from Transnet to PRASA

4. Industry Landscape

Industry is characterised by the following traits:

- Highly competitive environment.
- Price sensitive passengers.
- Intimidation of Autopax busses by Taxi operators mainly in the Eastern Cape and the North.
- Capital and Labour intensive environment.
- Competitors investing in new fleet including Super Luxury Double Decker to address the volumes and the high expectations of our passengers.

4.1 Industry passenger profile (Source NHTS 2013 If possible please update with more recent figures)

- 38 million citizens live in households with no access to cars
- 80% of adults do not have a driver's license
- 7 million workers and learners use public transport
- 13.7 million People used public transport at least once a week while 7 million used a car.

4.2 Key Research Insights on Long Distance Bus Passenger: Choice of Transport

- Cost of transport - Price
- Speed (number of "unproductive" hours spent)
- Reliability of service (including departure and arrival time)
- Frequency of services
- Safety of passengers

5. Internal Environment

This section focuses on the current internal environment utilising the SWOT Analysis (Figure 1) to indicate where Autopax is strong, where we need to improve and where our opportunities exists. The current customer profile (Figure 2) illustrates who we have as customers currently and their reasons for choosing Autopax brands. Our Service offering covers a wide spectrum of the market demonstrated below, finally we show how External Market forces can impact the demand for these services.

5.1 Swot Analysis

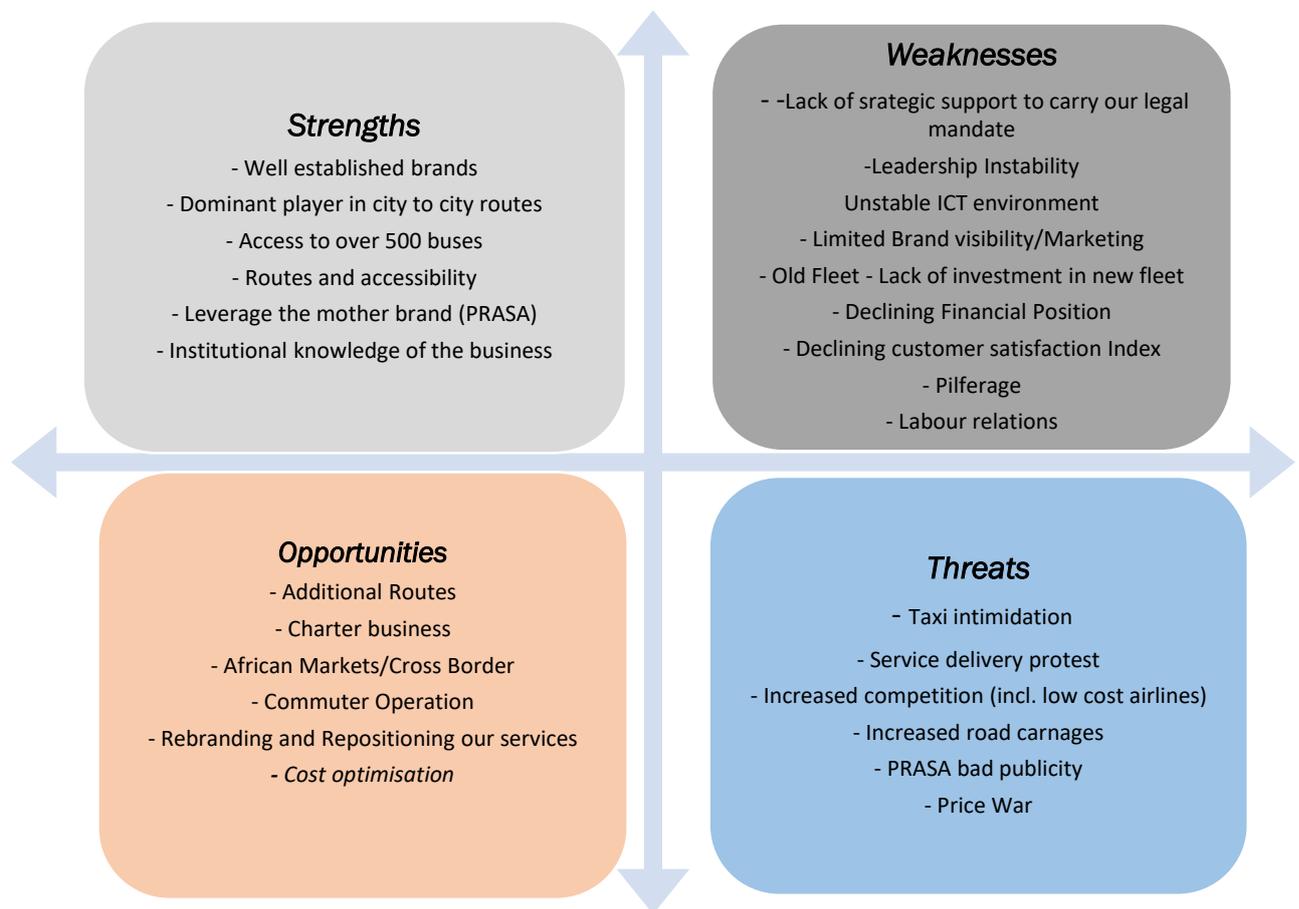


Figure 1 Autopax SWOT

5.2 Customer Profile

Customer research was conducted in 2015 to determine the profile of the Autopax customer.

Autopax provides services in 2 market categories, the luxury and semi luxury market.

City-to-City services serve the basic travel market, with services providing densely-packed

accommodation and a longer journey time with more frequent stops, although still offering an air-conditioned passenger environment. Fares are correspondingly lower.

Translux services are aimed at the premium market, with a lower passenger density; seats that recline more, providing more comfortable accommodation.

Autopax carried out a market-analysis study, which was conducted by Lufthansa in 2012, which demonstrated that Translux and City-to-City had a market share of 22% for long-distance buses based on the number of vehicles in operation. Parallel to that, a higher market share of 28% was achieved based on the number of passengers, which demonstrated that Autopax achieved higher load factors for most of its buses than do some of its competitors.

City to City consumer group (Figure 1) are considered to be loyal customers who will stick with the brand that they trust. It is concerning that the Customer Satisfaction Index is decreasing overall. Losing this customer sector, which contributes 70% of Autopax fare revenue, it means that they will build their loyalties elsewhere. These are the customers, we want to maintain, once lost, and they could be lost forever.

The Translux customer is the one looking for more luxury and comfort. This customer is not as loyal as the City to City customer and as they have more and more money, nor only will they go to the direct competitor, but they will tend to prefer the Indirect Competitors - Airlines.

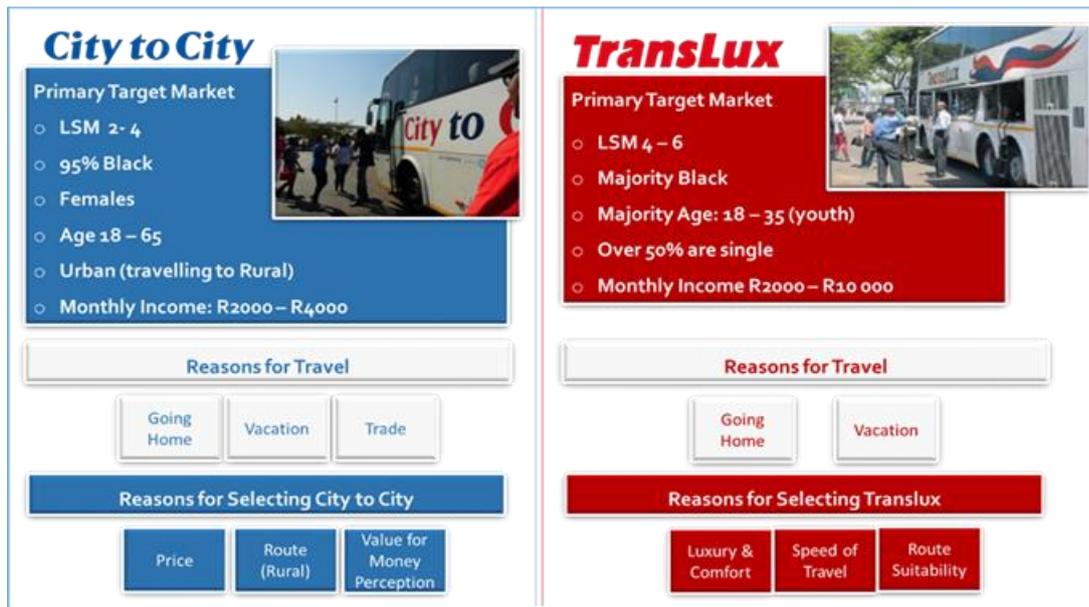


Figure 2 : Customer Profile and their Reasons for Travel and Choice of Travel

5.3 Autopax Service Offering

Autopax has Service offerings in 3 different categories – Long Distance, Charter Bus and Metro Rail Feeder Services, which are illustrated in Figure 3, Figure 4 and Figure 5 respectively

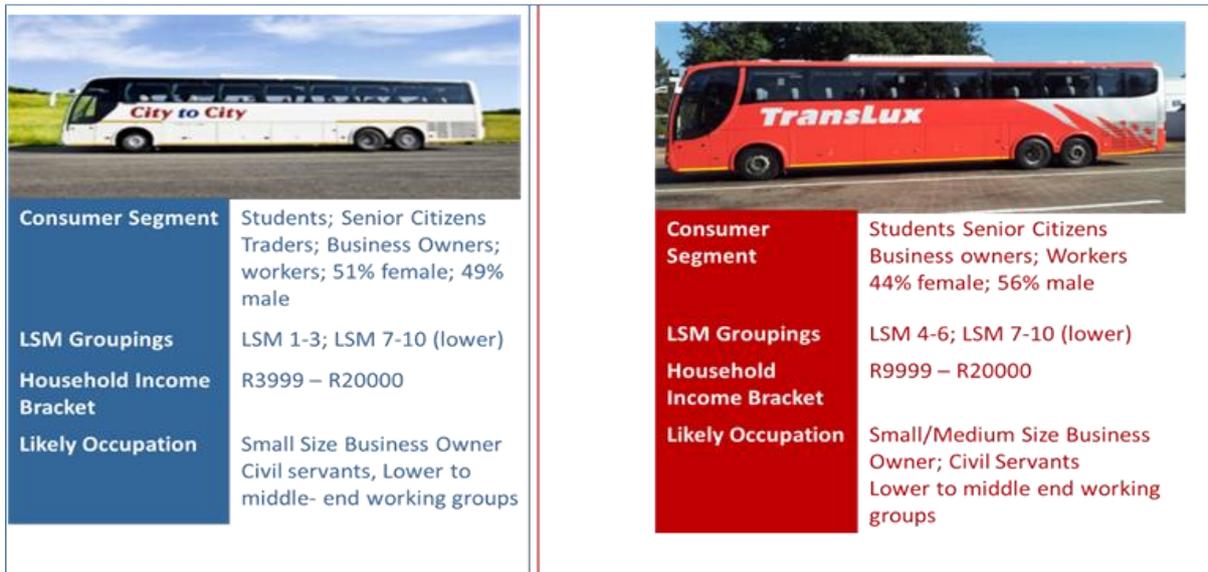


Figure 3: Long Distance Operation

The Charter Bus market is an area of growth for Autopax and is currently dependent of bus availability.

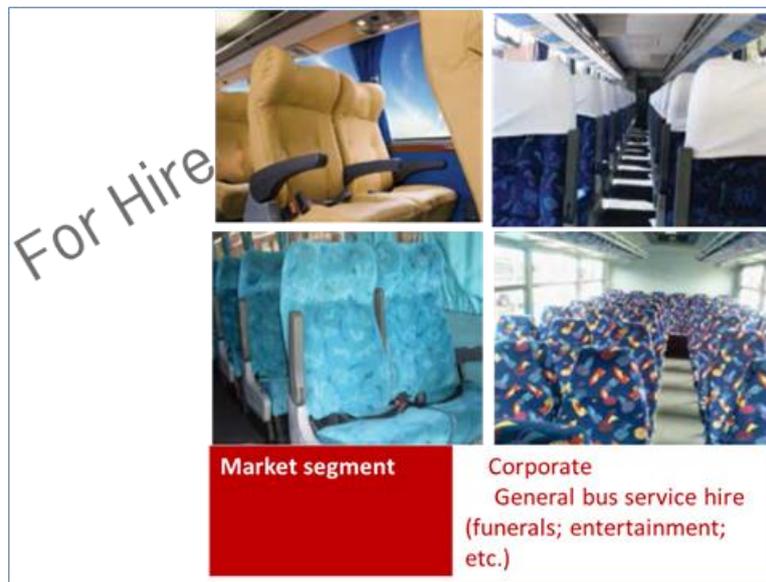


Figure 4: Charter Bus Service

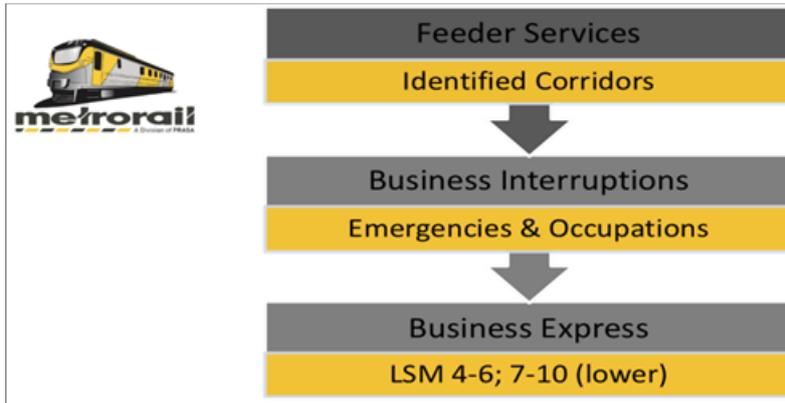


Figure 5: Metrorail Feeder Services

5.4 Market Trends Impacting the Demand for Autopax Services

The graph below highlights that the bus travel patterns are determined by external market environment such as public holidays and school holidays which naturally show peak seasons, particularly in January and December (Figure 6), Easter weekend and some very low season such as February, May, August months. This pattern has been realised year on year.

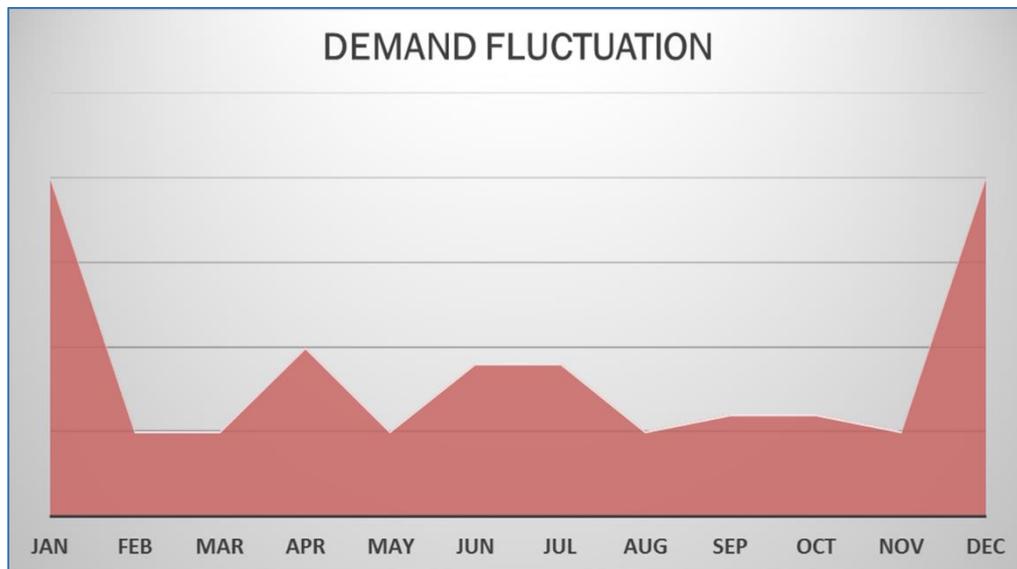


Figure 6: Market Trends

5.5 Autopax Sales Channels and Network

Table 1: Autopax Sales Channels

Direct Channels (53%)	Indirect Channels (45%)	Independent agents (2%)
Sales offices	Computicket	Travel Agencies
Call Centre	Shoprite/Checkers	Individual agents
Online/Website	Blue Label	
Drivers	Pick and Pay	

Autopax collects its revenue from direct and indirect channels. 53% of fare revenue is collected from direct channels which include Sales offices, Call Centre, website and by the drivers. This channels poses a number of challenges when it relates to fraud and ticket irregularities. The biggest challenge with this channel is manual tickets.

5.5.1 Direct Channels

Sales Offices: There are 40 Sales offices nationally. 26 of these are owned by PRASA Cres and 14 are privately owned. These are located on the routes as defined by the operating licence. It is envisaged that as PRASA modernise the stations, Autopax will strategically increase offices at the stations and align these with Metrorail offices.

The Autopax call centre is situated in Park station. It has a capacity of 50 agents but currently operates with less than 20 active agency. This has resulted in the decline in customer service level. The strategy going forward is to convert this into an integrated facility which will be used by the PRASA group.

Drivers collects an overage of 12% of the fare revenue on the road. This has resulted in a number of drivers being dismissed due to ticket irregularities. The PRASA strategy refers to a cashless environment which will benefit Autopax

Website bookings contributes less than 2% of fare revenue. This is the cheapest and safest form of revenue collection. There is an opportunity to increase this to 10%-15% in the next 3 years by offering an incentive to anyone who uses this platform and aggressive marketing. The channel experienced technical challenges in the past year and is currently stable. Additional efforts will be implemented to improve this channel revenue.

5.5.2 Indirect Channels

Third party agents continue to be strategic partners of Autopax. These include Shoprite/Computicket, Blue label and Pick and Pay. They provide Autopax with additional footprint and access to rural markets where Autopax does not have a presence. It is financially not possible for Autopax to have offices in the whole country and therefor this channel is critical in the future growth of Autopax.

5.6 Autopax Depots and Route network

Table 2: Autopax National Depots

Our Depots	Our Routes
Johannesburg Pretoria Durban Cape Town	North/Mpumalanga Corridor Coastal Inland Corridor

Autopax operates from four depots nationally, the biggest being the Johannesburg depot, commonly known as Harmony depot. Johannesburg, Durban and Cape Town depots are owned by Transnet whilst Pretoria is owned by the Department of Public Works. The strategy is to transfer these depots to PRASA in the medium to long term.

The strategy refers to route optimisation which resulted in the reduction of services from 191 to 161 in the current financial year. Objective is to operate services with a 75% utilisation whilst also attending to routes where Autopax is the only operator. The objective is to reduce the cost of doing business, improve efficiencies and revenue.

5.7 Autopax Fleet

Table 3: Current Fleet Status

TOTAL FLEET					
Kilometres Range	Andare	Paradiso	MAN	Total	Percentage
0 - 300 000	7	6	14	27	5.3%
300 001 - 600 000	26	28	39	93	18.2%
600 001 - 900 000	103	49	33	185	36.1%
900 001 - 1 200 000	99	53	5	157	30.7%
1 200 001 - 1 500 000	24	14	0	38	7.4%
Over 1 500 000	3	9	0	12	2.3%
Total	262	159	91	512	
*Excludes 5 training Buses and Hauler					

OPERATIONAL					
Kilometres Range	Andare	Paradiso	MAN	Total	Percentage
0 - 300 000	1	1	2	4	2.9%
300 001 - 600 000	2	5	8	15	11.0%
600 001 - 900 000	17	8	11	35	26.5%
900 001 - 1 200 000	34	20	3	57	41.9%
1 200 001 - 1 500 000	12	6	0	18	13.2%
Over 1 500 000	3	3	0	6	4.4%
Total	69	43	24	131	

FLEET STATUS					
Operational	Minor VOR	Major VOR	Accidents	Sponsorship/Training	Total
131	86	255	34	12	518
25.3%	16.6%	49.2%	6.6%	2.3%	

Minor VOR also includes Diffs and gearboxes

Currently the number of operational buses has reduced to 65 due to cash flow challenges.

The table above demonstrates a serious crisis on the availability and the condition of our fleet:

- 84% of buses have covered between 300 000 km and 1 200 000 km of this, 67% of operational fleet has covered between 600 001 km and 1 200 000 km. This is the main reason for the increase in breakdowns on the road. The OEM standard requires that when a bus reaches 800 000km's, it is either fitted with a new engine or it must stop operating.
- Autopax fleet is very aged, hence very high maintenance cost and multiple en-route breakdowns which has a direct impact on passenger retention. Based on the turnaround strategy, the business must procure new fleet in the next 12 – 18 months.
- Fleet available is averaging 130 buses per month which is far below the required 161 for intercity services.
- 255 buses (49%) of the total fleet have major defects such as engine and gearbox failures. These are the busses included in the requirement for new engines which forms part of the strategy.
- 86 buses (16%) have minor defects and can be fixed immediately. These require spares and can be brought back to operation in a short space of time.

6. External Environment

6.1 Competitor Profile

Figure 8 illustrates the competitor profile for both Translux and City to City. The advantage that other local bus operators have over Autopax is that they are either Privately Owned or Family Owned and some are listed entities. This eradicates the hierarchical decision-making processes that Autopax has to face. Regulatory policies and other compliance measures are the very deterrents of certain processes and approvals. The R500 000 threshold of the PFMA becomes a challenge in our environment due to the cost of our spares.

These players in the market have renewed their fleets and are offering customers competitive pricing, comfort and reliability, which are part of our Brand Promise, but due the state of our Fleet, these incentives cannot be offered to our customers.

The Indirect Competitors – low cost airlines for the premium sector and Minibus Taxis are taking away a share of the market share that the bus industry owned in the past, by not only

offering accessibility, speed and frequency (airlines and minibus taxis), but also offering premium class.



Figure 7 Competitive Landscape

6.2 International Benchmarking

In formulating the turnaround strategy, a benchmarking exercise was conducted focusing on a company with a similar profile as PRASA and Autopax specifically.

Flix-Mobility is a start-up from Germany, launched in 2011. The two brands are Flixbus and FlixTrain. Customer Centricity is at the core of their business. Some of the features offered on their busses are: Free Wi-Fi; Snacks on Board; Charging Ports; Cashless Booking and On-board entertainment.

Key learnings from this operator is that they put the customer at the centre of everything that they do. Their systems, operations, technology, comfort focuses on customer experience and it is what sets them apart from other operators.

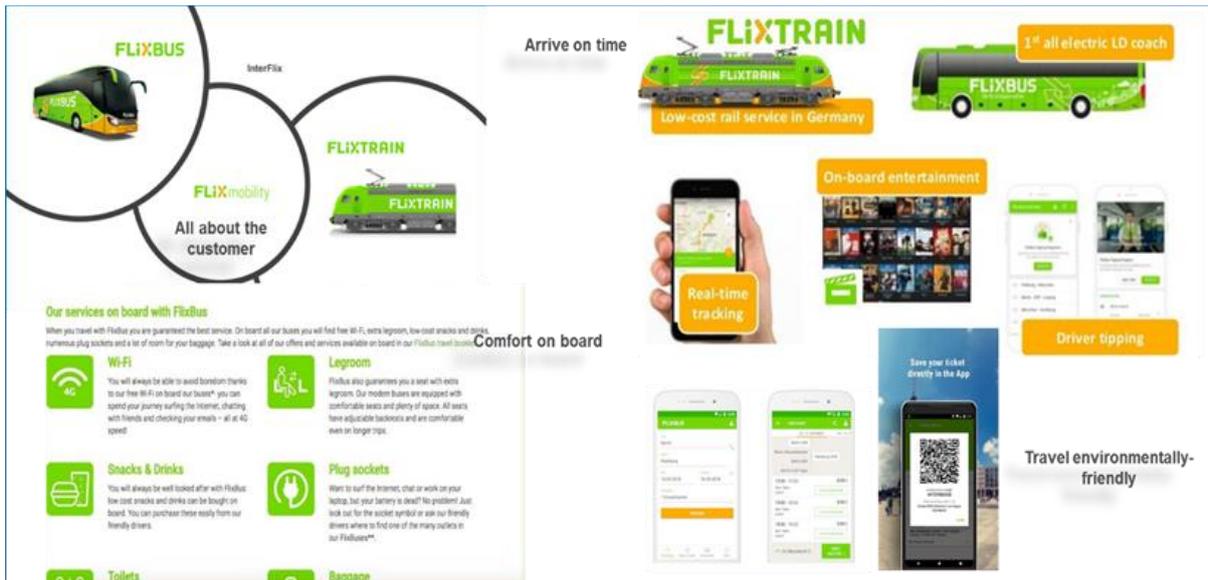


Figure 8: FlixMobility

7. STRATEGY AND BUSINESS PLAN REVIEW

The strategy and business plan review is about the following milestones:

- ❖ The strategy and business plan review focuses on major operational and financial turnaround of the business.
- ❖ It is aimed at ensuring that Autopax becomes a financially viable entity, capable of delivering on PRASA’s primary mandate as per the Legal Succession Act.
- ❖ It is also aimed at repositioning Autopax to effectively and efficiently support PRASA Rail operations.
- ❖ It is focused on investing in new capacity and resources that will meet passenger demands in a medium to long term horizon.
- ❖ Reviewing and addressing the company’s weak balance sheet.

7.1 BUSINESS PLANNING AND STRATEGIC FRAMEWORK

The 2020/2024 turnaround strategy will ensure that whilst it support the company's core strategic direction, it also begins to explore its strategic growth trajectory. To this end the company has identified possible growth opportunities in the intercity business, Cross Board operations, rail operations as well as Charters operation. The company will improve synergies with Rail Operations as part of its strategic growth plans. This approach will require the company to review its fleet capacity to meet the anticipated demand. Measures are afoot to implement this growth trajectory focusing on the radical fleet recovery plan.

7.2 The strategy – Growth focused

The company's growth trajectory strategy is about the increase in the number of operational buses and will pivot around the following:

- ❖ **Organic growth in Intercity and Cross Border operations** – The Company has identified a number of routes in the Northern and Eastern Cape that present a growth opportunity for the business. To this end, the company has lodged applications with the relevant authorities with the aim of increasing the number of intercity services whilst it leverage the current demand on existing routes.
- ❖ **PRASA Rail operations** – During the 2014/2015 financial year, the company was able to effectively and efficiently support rail operations leading into inter-company revenue of over R85 000 000.00. The Autopax strategy and business plan are aimed at returning the company to this position. This plan will assist PRASA Rail operations during occupations and emergencies.
- ❖ **Cross Border operations** – The Company is currently operating two daily services between Gauteng and Maputo. The company has recently acquired fourteen (14) permits to operate between Gauteng and Zambia (Lusaka). The company is also in the process of acquiring additional cross operating permits focusing at Swaziland, Lesotho, Namibia, Botswana and Zimbabwe.
- ❖ **Charter services** – The charter market remains a huge opportunity for Autopax towards the realisation of the growth trajectory strategy. The company has in the last two financial years failed to convert a number of charter opportunities. With the increase in the number of operational buses, the company will be in a position to fully explore this market.

- ❖ **Feeder services for Metrorail** – The Company is exploring plans with Metrorail and MLPS with the aim of ensuring that it is in a position to provide both with feeder services as per the Legal Succession Act.

7.3 Key strategic objectives

#	Strategic Objective	Strategic intent	Focus areas	Outcomes
1	Financial management, viability and sustainability	Financial viability and sustainability	Route optimisation	Improve route profitability and performance
			Cost optimisation	Implement asset management strategy
				Reduction in the cost of doing business
				Establish optimal funding model (OPEX and CAPEX)
			Revenue Optimisation	Achieve fare revenue targets.
				Strengthen revenue inspection capacity
Achieve solvency and liquidity ratios				
2	Effective and Efficient Operations	Operational excellence and increased reliability	Asset optimisation	Operate roadworthy fleet
				Reduction in breakdowns
				Reduction in maintenance costs
			Revenue Optimisation	Operating clean buses
				On time departures
				Enable people and processes with Information and Communication Technology
				Achieve accredited status as a preferred repair and maintenance centre
				Documented Standard Operating Procedures

#	Strategic Objective	Strategic intent	Focus areas	Outcomes
		Contribute to socio-economic policies of Government	Cost optimisation	Black economic empowerment
				Improve mobility of citizens
				Promote enterprise development
		Supply Chain optimisation	Cost optimisation	Employment creation (Internship and Learnership)
				Implement Strategic sourcing
		Corporate Governance	Control optimisation	Eradication of irregular expenditure
				Eradication of fruitless and wasteful expenditure
				Enhanced ethical culture
				Compliance to policies, procedures and legislation
				Clean audit
3	Excellent Customer service	High levels of Customer centricity	Customer centricity	Improved customer satisfaction index
				Agile and customer focused employees
				Passenger growth
				Professionalization of service offering
				Rebuild brand trust and loyalty
4	Performance excellence	Capacitation of employees	Performance management	Employee training and development
				Embedded performance contracting, assessment and reward regime
				Enabling a performance culture
				Fit for purpose organisational structure supported by proper job grading and salary structure regime
				Leadership and management development programmes
				Implement business based Change management initiatives

7.4 Strategic Pillars

NO	Strategic Pillar	
1	Fulfilment of legal succession act	<ul style="list-style-type: none"> - Autopax exist to service the primary mandate of PRASA which is, provide in consultation with the Department of Transport, for long haul passenger rail and <u>bus services</u> within, to and from the Republic in terms of the principles set out in Section 23 of the Legal Succession Act. - PRASA has further mandated Autopax to provide feeder services to Metrorail Operations. - Autopax also exist to support PRASA Rail Operations in cases of emergencies and occupations.
2	Operational sustainability	<ul style="list-style-type: none"> - Availability of 329 busses to meet all operational requirements - Achieve 90% on-time departures and arrivals. - Reduce breakdowns to below 5% of operated services. - Invest in a new fleet of 200 buses in the next 24 months. - Rebuild and refurbish 191 buses in the next 12 months. - Depot Modernization in the next 12 months
3	Financial sustainability	<ul style="list-style-type: none"> - Settle historic debt of approximately R 196,6 m by March 2020 - Increase total revenue to R1billion by 2023. - Reduce employee costs to 35% by March 2021. - Settle intercompany debt R 1 032.0 m by March 2020 - Revenue protection enroute and in the sales offices - Reduce the costs of doing business by implementing austerity measures in all departments
4	Customer Service	<ul style="list-style-type: none"> - Increase customer service index from 58% to 85% within the next 24 months. - Rebuild brand trust and loyalty. - Promote road safety. - Implementation of Integrated call Centre.

NO	Strategic Pillar	
5	Human Capital	<ul style="list-style-type: none"> - Fit for purpose organisational structure - Fill key management positions - Invest in Training and development - Implement skills audit - Performance management - Introduce staff incentives
6	Governance and legal framework	<ul style="list-style-type: none"> - Implementation of policies, compliance and regulatory framework. - Total compliance to relevant policies, procedures and applicable prescripts. - Achieve clean audit by March 2021 by eliminating all repeat findings. be specific otherwise you might give a wrong impression. - Adherence to policies and processes to eliminate irregular and wasteful expenditure. - Risk Management - Review SCM policy to talk to Autopax unique challenges

7.4.1 Urgent initiatives (February 2020):

This section of the strategy focusses on reinstating the current service of Autopax because currently the business is grounded until the following decisions are made:

- Payment of critical Suppliers to re-instate the current services
- Fix the 90 buses urgently needed for operations to optimise the Easter peak periods
- Payment of a loan to Autopax for operational costs

7.4.2 Short-term initiatives (0 – 6 months):

This section of the strategy focusses on the current position of Autopax and on how to stabilize the business in the short term. The following strategic areas will be implemented:

- Routes Optimisation
- Assets Optimisation
 - Acquisition of Engines
 - Re-fleeting and refurbishment of fleet
- Cost Optimisation

- Control Optimisation
- Procurement Optimisation
- Customer Service

7.4.3 Medium - Long Term initiatives (6 – 12 months):

The Medium- long term interventions will be focussing on structural interventions which includes the recapitalisation of Autopax and most importantly, focusing on achieving more competitiveness in the market place. The objective is to achieve a high-quality, reliable service and a financially sustainable organisation. The focus will be on high passenger-volume routes providing scope for more frequent services where possible. This will also include additional routes (both national and regional routes) as well additional revenue streams.

The following key structural, policy and operational key decisions by the shareholder will enable Autopax to achieve the desired outcome of the strategy.

- The Organizational Structure:
 - Divisionalisation of Autopax:
 - Designing a funding model for Autopax
 - Transfer of key assets (Depots) from Transnet and Public Works to PRASA
- Autopax to provide Rail support
 - Feeder and distribution services for Metrorail.
 - Support Metrorail in case of derailments and emergencies.
 - Align Autopax to key Rail projects (Corridor modernization)

7.5 Short-term initiatives (0 – 6 months):

7.5.1 Route optimization

The company continues to review the current routes and the schedule with a view of identifying profitable and non-profitable routes. This process has culminated in the reduction of certain routes with a view to curtail the cost of doing business. The process will ensure that profitable routes are in a position to generate a minimum of 75% seat utilisation on each service off-peak and 95% seat utilisation during peak. All identified non-profitable routes will be terminated after due monitoring.

It is management's considered view that the implementation of the Route Optimisation will lead the company to realise the desired financial management, viability and sustainability.

7.5.2 Revenue optimisation

The company is embarking on a radical organic growth strategy through market penetration and market development. The main aim of pursuing this radical growth strategy will be to ensure that the company increases its market share through improved and reliable bus service. The market penetration strategy will have a high success rate given the passenger loyalty towards both Brand Translux and City-to-City. On the other hand the market development growth strategy will be realised through strengthening and resourcing the Autopax Charter Services, complete support of Rail Operations and Cross Border Services. The Revenue optimisation will focus on Revenue generation, Revenue collection and Revenue protection.

It is management's considered view that the implementation of the Revenue optimisation will lead the company to realise the desired **financial management, viability and sustainability**.

7.5.3 Asset optimisation

Through the process of defining what will make Autopax sustainable, the business plan and strategy has determined the criticality of Autopax operating the optimum complement of the fleet. The company will immediately embark on a process of identifying and utilising just the right optimum fleet level. The process will be supported by a robust fleet maintenance regime that will ensure that all operational vehicles remain on the road all the times. Based on this position Autopax will also ensure that there is adequate fleet to support Rail Operations, strengthen Charter services and pursue the Cross Boarder market.

The implementation of the asset optimisation process will ensure that the company realises the desired **effective and efficient operations**.

7.5.4 Cost optimisation

Management has engaged in a robust and detailed process of understanding the company's revenue generation potential and the cost of doing the business. This process was intended to ensure that the company's cost structure is proportionate to the revenue generation. Other measures that will be implemented to realise this objective will include total moratorium on all external permanent appointments, unless approved by the Chief Executive Officer. Through this process the company will also review the impact of inter-company costs on the financial management, viability and sustainability of Autopax. The fact that Autopax does not own the infrastructure that it uses to operate its core business poses a challenge to the balance sheet of the company.

The implementation of this objective will ensure that the company realises the strategic lever of **financial management, viability and sustainability** as well as **effective and efficient operations**.

7.5.5 Control optimisation

Based on the harsh reviews by the Auditor-General South Africa and internal Risk Management, the turnaround strategy will also focus on reviewing and improving the control environment. This process will focus on review of all business processes, policies and standard operating procedures to ensure that the control environment is strengthened.

Autopax like many of its competitors in the industry is operating in a highly technologically advanced industry. To this end, the business plan will also focus on implementing the Information and Communication Technology that supports the day-to-day operations of the business. The company will also ensure that in the near future it explores the opportunities offered by the world of Internet of Things (IoT) for improving efficacies in the operations of the business including implementing measures that will differentiates the company from its competitors in the eyes of the passenger. The objective of optimising the control environment will also require entrenching the culture of consequence management in line with the Board approved Performance Management policy.

This objective will ensure that the business realises the strategic lever of **effective and efficient operations** and **performance excellence**.

7.5.6 Supply Chain optimisation

Due to the nature of its operations, Autopax requires a strengthened and fully functional procurement capability. This will be supported by a business focused and aligned demand management framework. The recently board approved Supply Chain Management policy will implemented swiftly supported by line management capacity building programmes. The company will place most emphasise on strategic sourcing and supplier development focusing on Women, Youth enterprises and Cooperatives.

This objective will ensure that Autopax realises the strategic lever of **effective and efficient operations**.

7.5.7 Performance management

Instilling a performance management based culture in the business is at the centre of the company's quest towards performance excellence. The Board has approved the company's policy on Performance Management. All employees on Management levels will be contracted on performance management. The company will also ensure consequence management in the business to entrench the performance based culture.

This objective will ensure that Autopax realises the strategic lever of **Performance excellence**.

7.5.8 Customer centricity

Autopax acknowledges that it is operating within a highly competitive environment. The turnaround strategy will ensure that the company realise its full potential through passenger confidence in the two brands. The company will also focus on reclaiming its apex position as a dominant player in the industry. This objective will be realised through on-time departure management, effective en-route monitoring with consequence management. The company will ensure improved quality of service through focused customer service and provision of

passenger friendly clean fleet. The communication between the Operations and Sales departments will be strengthened to ensure that passenger experience is improved. This will lead to an increase in market share and improved customer satisfaction index.

This objective will ensure that Autopax realises the strategic lever of **excellent customer service**. It is management's considered view that the implementation of the customer centricity will lead the company to realise the desired Excellent Customer Service.

7.6 Medium to Long-term Strategy (+ 6 months)

In support of the National Development Plan (NDP) and the National Transport Master Plan, Autopax has identified the following Medium - long-term strategies:

- A. The Organisational Governance Structure: Divisionalise Autopax
- B. Offer Feeder Service to rail (Extension of RAIL)
- C. Streamline the operation to service the broader SA community

7.6.1 Divisionalisation of Autopax – Business case

The Divisionalisation of Autopax is included in the PRASA get on Track as a strategic direction the shareholder is considering. This will see Autopax being de-registered as a commercial trading entity and a subsidiary to become a division of PRASA. This option will effectively present several synergies within PRASA, in the main directed towards making the Rail Operations in particular Metrorail and Autopax Services to improve.

The decision to Divisionalise Autopax has been taken by the Shareholder's Board of Control, however it is subject to final approval by the Minister of Transport. Through this model, PRASA will be able to realise maximum benefit on the value of Autopax as a business. The following are some of the benefits that will be realised between Autopax as a division and PRASA as the holding company:

Shared services model – PRASA Group is in the process of establishing a shared services model for the entire Group. This will see Autopax participating in this model without requirement for a further capital expenditure funding aimed at establishing infrastructure purely for the use of Autopax only. This shared services model will amongst others cover the

following support functions Human Capital Management, Finance, Information and Communication Technology and Supply Chain Management.

Employee cost – Through the Divisionalisation, Autopax will focus on its core business which is Bus operations and bus maintenance. At the Group level, Autopax employee cost are already part of the Group employee cost. As per of the Divisionalisation process, Autopax will not require all the current cohort of its workforce. Metrorail is currently struggling to fill its safety critical vacancies as required by the Regulator as well as in the GNC. A number of existing Autopax employees will be available to fill this critical positions.

National Development Plan – Autopax is committed towards contributing to the key principles of the National Development Plan. The National Development Plan assumes that by 2030, investment in transport sector will:

- a. Bridge geographic distance affordably, foster reliability and safety so that all South Africans can access previously inaccessible economic opportunities, social spaces and services.
- b. Support economic development by allowing the transport of goods from points of production to where they are concerned. This will facilitate regional and international trade.
- c. Promote low carbon economy by offering transport alternatives that minimises environmental harm.

Autopax has applied and received operating licences to transport passengers in the neighbouring states. The business is acutely aware that this operation is in the main about transportation of goods and it is aimed at promoting trade. It is however important to note that this operation requires a fleet that is fit for the purpose which without the support of the Shareholder Autopax will not be in a position to realise this noble objective.

Public Finance Management Act - Autopax is the only state-owned entity that operates a long distance bus passenger business. The company is competing with privately owned companies that are not governed by the Public Finance Management Act. On its own, and without the financial support of the Shareholder, Autopax will experience major difficulties to realise its mandate under these conditions. It is also important to note that Autopax as a state-owned

company has an obligation to provide a social service by transporting citizens in rural remote areas which privately owned companies are avoiding. This objective must be fully supported by the Shareholder to ensure that it is sustained.

Competition laws – The competition Commission has recently raised concerns about the fact whilst Autopax is a subsidiary of PRASA it is receiving preferential treatment in terms of access to the bus stations and ranking facilities. Whilst this matter was argued by PRASA in terms of single economic entity doctrine, the matter will remain a concern to the competition commission and other private bus operators for as long as Autopax is not a division of PRASA and could later result in adverse finding by the Competition Commission.

In motivating for this option, the Executive team of Autopax referred to the following advantages for the business:

- a. Autopax currently pays rent to PRASA CRES. If the company was divisionalised, this would not be the case. This will have a positive impact on the organisation's results (saving on 15 % VAT) and on cash flows, as VAT will no longer be payable. The doctrine of a single economic entity applies. Any potential Competition Law concerns would be addressed as indicated in the legal opinion received.
- b. The Legal Succession Act indicates that PRASA, in fulfilling its mandate and setting up structures, must fund and finance these operations.
- c. Governance will be streamlined, and costs will be saved.
- d. Synergies such as consolidating ticket selling facilities to sell both rail as well as bus tickets from the same facility on a standardised ticket selling system for all modes of transport in PRASA will reduce cost of doing business and result in an improved customer experience.
- e. The creation of sustainable jobs and contributing to the Policies of Government

Notes: Divisionalisation of Autopax on its own will not turn around Autopax, other operational and structural challenges highlighted in this strategy must be addressed.

7.6.2 Offer Feeder and support Service to Rail

In South Africa it is unusual for long distance rail and road transport modes to be integrated in any formal sense. Initiatives such as through ticketing, planning of connecting services and

timetable coordination are largely absent, and where they do exist, they are built on custom and practice rather than on deliberate design.

Would-be passengers normally buy separate tickets for the different modes, and therefore take the risk that late running may make them miss their connections. For these reasons many long-distance journeys are characterized by long waits at connection points, which exacerbates the already long journey times. PRASA is uniquely placed to be able to take a lead in tackling this problem, as it provides both rail and road-based long-distance transport.

For historical reasons the two businesses (MLPS and Autopax) have up until now operated separately, and in many cases in competition with each other. While this is for perfectly good commercial reasons, the opportunity to build a stronger level of participation between the businesses, and therefore a more attractive offer for users, needs to be exploited.

The Technology Choice framework of PRASA demonstrates that road and rail have relative strengths and weaknesses in different areas and can therefore support each other in key areas.

This service includes rural travel which is defined as being any travel outside of the main urban areas served by Metrorail. This covers all travel in Free State, Mpumalanga, Limpopo, Northern Cape and North West as well as in the Western Cape outside Cape Town, the Eastern Cape beyond Buffalo City and Nelson Mandela Bay, and KZN beyond Durban.

Autopax's long term plan is to strengthen this area of the operation and provide a reliable feeder service to Rail.

Autopax will also be included in the rollout of Rail projects such as Corridor modernisation where Autopax will provide busses where train service is disrupted.

Investment in additional busses to support the core business of PRASA, which is rail, is core and it forms part of this turnaround strategy.

7.6.3 Streamline the Operation

Autopax is historically capacitated for 517 busses. All major functions such as operations, technical, sales footprint and personnel are aligned to the 517 busses whilst currently, the services were rationalized from 191 to 143 in year 2017/18 and from 143 to 161 in 2019/20 and these have been further rationalized from 161 to 154 in 2020/21 budget. The services

that were rationalized are the ones that were performing poorly and draining the resources of the organization.

According to the current strategy, the business will require 329 buses to operate intercity services, rail support, cross border and charters. In support of the long-term strategy, in streamlining the Autopax operation, business has identified key interventions that will be implemented in the next 18 -24 months. These are:

13.3.1: Review of Autopax service offering

Currently, Autopax offers 3 different services. These are, Long distance, Charter operation and rail support. It is management’s view that this needs to be reviewed so as to keep Autopax sustainable.

The Get on Track strategy of PRASA, refers to the review of Autopax mandate and business mandate. This will require a policy change.

Long Distance Operation

#		Current Status	Streamlined operation	Desired strategic Outcome
1.	Long distance operation	191 scheduled services	154 scheduled services 52 duplicate services	<ul style="list-style-type: none"> Focus on high demand services, with +75%occupancy Reduction in maintenance and diesel costs
2.	Long distance Busses	205 busses required	211 busses required	<ul style="list-style-type: none"> Excess busses will be used for duplicates during peak and makes provision for spare capacity

The long distance operation currently contributes over 98% of Autopax total revenue. Autopax is currently struggling to meet daily operational requirements as per the schedule.

The strategy seeks to address the issue of the shortage of busses the improvement of the Autopax service offering: These include

- Repair all busses with minor and moderate defects
- Refurbish and rebuild 198 busses (these include the engines)
- Procure 200 busses in the next 24 months
- Adherence to maintenance regime

- Cost containment

Charter operation

#		Current Status	Streamlined operation	Desired strategic outcome
1.	Charter operation	No allocated bus	15 busses ring-fenced for charter. Same busses will be used as duplicates during the peak periods	<ul style="list-style-type: none"> • Increase conversion rate to above 80%. i.e. convert all quotes into contracts • Increase charter revenue • Tender for long term contracts • Form strategic partnerships with Tourism department

The charter operation has been identified as a growth opportunity for Autopax. Currently, the business is unable to convert quotations into contracts and unable to attract new clients due to the shortage of busses. Historically, Autopax used to dominate the charter market and had long term contracts with a number of corporates including Pick and Pay, Old Mutual, Ford motor company, Park ride and Transnet (Sentra Rand). Currently, Autopax does not have any long term contract.

Our long term strategy to charters is defined in the following interventions:

- Decentralise charter and allow the regions to draw and implement regional plans
- Ring fence and allocate 15 busses to the charter unit. These will be used for the following:
 - Tendering for government business such as ACSA.
 - Form partnerships with Mining companies to transport their employees.
 - Reclaim the corporate market with new luxury busses
 - Leverage the Tourism industry by partnering with organisations such as the National Parks board
 - Acquire charter permits to offer business express from the station to the nearest suburb or location within a 50km radius. This is the Gautrain model which is being investigated.

Offer Support Rail

#		Current Status	Streamlined operation	Desired strategic outcome
1.	Metrorail	No allocated bus	108	These busses will be strategically located so as to support rail timeously during any service interruptions. The long term strategy is to utilize these busses for feeder services to rail

Autopax had previously allocated 106 busses and drivers nationally to rail. These were used for emergencies and any train service disruptions. Due to the shortage of busses, this service deteriorated and eventually stopped.

The strategy is to invest and repair busses that will be used to support the core business of PRASA, which is rail. These busses will also be used to provide a feeder service to rail.

Autopax has also identified an opportunity to partner with rail on their modernization projects. This includes projects such as corridor, depot and stations modernization where a few disruptions will be experienced.

7.6.4 Autopax Integration into the PRASA Group

The Autopax Medium - long term strategy also focusses on areas of integration and alignment within the PRASA group. These are areas of focus of the Get on Track strategy. The following areas have been identified to support the strategy and maximise revenue and to reduce costs:

A. Ticketing /Cashless environment

- A new ticketing strategy has been developed and the STAR system is implemented. This system addresses ticket selling and reservations, remission, several issues which were previously identified as challenges and areas of development. Foremost amongst these is;
 - the opportunity for through ticketing, allowing multi-modal travel on trains, buses and minibus taxis, with integrated ticketing with the aim of strengthening the overall public transport offer.
 - Improved availability and use of fare information to plan services and provide an opportunity to share information between Shosholoza Meyl and Autopax.
 - The STAR system is developed for Autopax and MLPS. This allows for a seamless integration of the two divisions of PRASA.
 - The system can easily be configured to cater for Rail's use and therefore be integrated into other areas of the PRASA business.
- Fraudulent activities related to cash handling have crippled the business. These are both in the sales offices and by driver's en-route. The strategy going forward is to introduce an Electronic cashless ticketing system with a smart card or mobile technology which will greatly reduce security issues and ticket irregularities. Currently, the organisation is studying the Gautrain model which is cashless and plans to learn from other operators utilizing the cash less system.
- Electronic ticketing also provides an opportunity to replace the current arrangements with a more 'customer friendly' technology. PRASA already has a

ticketing strategy, which forms an important supporting part of this overall strategic plan.

The STAR system has an additional benefit which is the availability of data on travel patterns and this is available in near/ 'real time'. This provides a better understanding of passengers' needs and travel behaviour, and will when effectively utilized, provide much needed customer information much more quickly on changes in trends. PRASA can use this information to sharpen its market focus and respond more effectively to passenger and stakeholder aspirations.

B. Sales offices and Loading points

Currently, Autopax is operating from 40 sales offices nationally. 26 of these offices are located at rail stations whilst the remaining 14 are located in privately owned premises.

Sales offices and loading points are determined by the route network and permit regulations. This is also informed by where competitors are selling. Autopax's long term strategy proposes an alignment of the sales channels between RAIL and ROAD transport.

This is critical in the success of the Autopax Turnaround strategy. There is an opportunity for Autopax, MLPS to consolidate offices at stations and to train staff to sell both brands (Trains and Buses)

C. Integrated Call Centre

Currently Autopax operates from a 50-seater call centre located at Park Station. The facility was recently renovated to address issues such as the system, security, reporting, productivity and performance. The Autopax call centre facility has the capacity to be utilized by both MLPS and Autopax.

This integration will assist with improved efficiencies and save costs of setting up and running separate call centres. Agents will be trained to deal with all PRASA product offerings.

D. Go Metro – Booking App

Metro rail procured a mobile APP which is utilized for MLPS bookings. The current booking APP is only handling MLPS/Metrorail bookings. This APP can be extended to Autopax as well so that the organisation does not procure a separate booking APP for Autopax. This also contributes to the vision of a cashless environment.

E. Intergroup transactions

Cost containment - Strategic Procurement

Procurement optimisation is identified as another critical area of integration into PRASA that would lead to cost / efficiency improvements

F. Intergrated ICT Strategy

The Autopax long term strategy refers to an integrated ICT environment within the PRASA group, which will see an improvement in the business operation and financial position of Autopax. Below are the areas of integration that supports the long term view of Autopax as an integral part of PRASA.

- Reduction or elimination of manual tickets
- Network Infrastructure – Connectivity at all selling points
- Enhancement of the Reservation system – STAR
- Surveillances – Bus, Trains, Sales office, Depot, Warehouse/Stores
- Access control – Biometric at call centre, sales offices and depots
- SAP Plant Maintenance
- Scheduling and Rostering
- Modernization opportunities
- Online communication platforms (Internet, intranet, social media platforms)

8. Financial implications and the Funding of the Strategy

8.1 Financial Impact excluding strategy interventions:

Appropriate funding is at the centre of Autopax realizing its core mandate in terms of the Legal Succession Act. Autopax exists to service the primary statutory object relating to bus operations as per the Legal Succession Act. If Autopax fails in terms of delivering on its legal mandate, PRASA would have failed in terms of its statutory obligations as per the Legal Succession Act. The table below is a demonstration of the financial implications if the strategy is not implemented

Table 4: Financial Projection – Excluding strategies, as is

Summary	Jan 2019 YTD 2019/20	Feb 2020 Projection	Mar 2020 Projection	Projection 2019/20
Total revenue	402,404,212	6,000,000	-	408,404,212
Personnel cost	-302,298,106	-31,206,690	-31,235,010	-364,739,805
Energy	-146,783,184	-3,000,000	-	-149,783,184
Maintenance and Material	-62,776,138	-	-	-62,776,138
Other Operating Expenses	-138,157,370	-7,385,001	-7,385,001	-152,927,372
Finance Income/(Cost)	-4,350,891	-465,781	-465,781	-5,282,452
Depr/Losses/Amort	-15,129,915	-1,513,831	-1,513,831	-18,157,578
Total Profit / (Loss)	-267,091,392	-37,571,303	-40,599,623	-345,262,317

March 2020 projection only includes fixed cost.

Business closure by end Feb'20/Mar'20 will be imminent due to forced liquidation from suppliers. Job losses of about 1016 due to business closure.

14.2 Financial Impact including strategy interventions:

Summary	3 Year projection - including interventions		
	YEAR 1	YEAR 2	YEAR 3
Number of operational buses	251	251	329
Total revenue	868,617,173	920,734,203	975,978,256
Operational expenses	-997,375,932	-1,047,244,728	-1,037,689,776
Finance Income/(Cost)	-6,855,168	-6,855,168	-6,855,168
Depr/Losses/Amort	-16,993,666	-16,143,983	-82,008,190
Total Loss	-152,607,593	-149,509,676	-150,574,878
EBITDA	-128,758,759	-126,510,525	-61,711,520

14.3 Funding requirements of the strategy:

In support of the long-term strategy, the following funding requirements have been identified:

- **Immediate cash injection required:**
 - a. **Release buses from VOR – estimated R 12 m**
 - b. **Payroll – R 29 m**
 - c. **Settle critical supplier accounts to enable immediate operational support – estimated R 80 m**
- **Settlement of external historic debt – estimated R 196,6 m**
- **Operating capital – estimated R 205 m per annum**
- **Procurement of new fleet**

Product Type	Quantity	Unit Cost	Total Cost
Luxury (Double Decker)	50	R 5 500 000.00	R 275 000 000.00
Luxury (Single Decker)	100	R 4 000 000.00	R 400 000 000.00
Semi Luxury (79-Seater)	50	R 2 800 000.00	R 140 000 000.00
	200		R 815 000 000.00

The benefits associated with the procurement of the new fleet are numerous and include, but not limited to the following:

- ✓ Improved operational efficiencies.
- ✓ Increased customer (passenger) satisfaction and market share.
- ✓ Increased revenue and financial sustainability.
- ✓ Decreased en-route breakdowns.
- ✓ Improved brand image and reputation

- **Bus refurbishment and bus rebuild**

The process of refurbishing part of the current fleet will ensure that Autopax attains the minimum functional fleet of 329 buses. This process is aimed at ensuring that the fleet with lesser kilometres can be revitalised and the lifespan be extended. It is expected that the refurbishment and rebuild programme will add another 191 buses

in addition to the proposed new fleet of 200 buses making a total of 415 functional buses. This is made up of 24 from the current fleet with low mileage, 191 as per the table below and 200 new busses.

- **Bus refurbishment and rebuild**

Refurbishment costs

Project(overhaul)	Quantities	Estimated project Cost	Total Cost
Differentials	198	R 75 000.00	R 14 850 000.00
Gearbox	198	R 95 000.00	R 18 810 000.00
Engines	198	R 340 000.00	R 67 320 000.00
Air system	198	R 69 000.00	R 13 662 000.00
Air con	198	R 110 000.00	R 21 780 000.00
Engine cooling system	198	R 51 637.30	R 10 224 185.40
			R 146 646 185.40

Suspension	198	R 79 105.69	R 15 662 926.62
Body refurbishment	198	R 431 000.00	R 85 338 000.00
			R 101 000 926.62
Total costs			R 247 647 112.02

- **Depot Modernisation/construction**

The majority of the industry players own their infrastructure, whereas Autopax is leasing the Depot and office infrastructure from third parties and PRASA.

Current Depot infrastructure is not fit for the purpose of operating effective and efficient bus operations. In certain cases, this makes it difficult for Autopax to compete fairly in the market from a cost perspective.

Modernisation / acquisition of bus depots is required to support bus operations.

Autopax is currently leasing its Depots from Transnet (Harmony and Greyville Depots), Department of Public Works (Salvakop) and private party (Cape Town).

These arrangements are contributing directly to the severe liquidity challenges that the company is experiencing at the moment. Autopax requires a total of four (4) modernised Depots for the purpose of efficient and effective operations.

The depot modernisation is included in the Get on Track strategy of PRASA. The project is has kicked off and this will contribute positively in the operational efficiencies and the financial position of Autopax.

Notes: The primary reasons for the existence of Autopax including its funding requirements are clearly outlined in the preliminary legal opinion which Group Legal obtained from an independent legal firm of Attorney. The legal opinion covers both the Legal Succession Act and the Competition law.

9. Recommendation for Success

Based on the above, the following funding is recommended for the success of the Autopax long term turnaround strategy:

- **Capital Funding:**

The Shareholder approves the capital funding for Autopax for the refurbishment and rebuilding of 198 buses- refurbishment R 146, 6 m and rebuilding R 101, 0 m. This includes the replacement of old engines by new ones.

The Shareholder approves the capital funding for the modernisation or construction of Autopax Bus Depots as per the PRASA Technical Division modernisation programme to the estimated value of R800 000 000.00 [covering the following Depots Durban (R19m), Salt River (R20m), Harmony (R50m) and Hercules (R10m)]

- **Divisionalisation:**

The Shareholder approves the Divisionalisation of Autopax to address the cost structure as well as implication of the PFMA and Competition Commission matters.

- **PRASA Integration:**

The Shareholder approves the principle that Autopax is an integral part of PRASA and must be included in all Capital Expenditure Programme and planning in line with the mandate of PRASA as per the Legal Succession Act and Single Economic Entity doctrine as per the competition law.

- **External Debt Eradication:**

The Shareholder eradicate the company's external creditor's book of R196,6m as at end January 2020.

- **Inter-Company Debt Eradication:**

The Shareholder approves the write-off of the inter-company debt of R1031m as at end of January 2020. This is in line with the PRASA mandate as per the Legal Succession Act and Single Economic Entity as per the Competition Law.

- **Procurement:**

The Shareholder approves the procurement of 200 new buses at an estimated cost of R815 million.

10. Key Risk areas

- Liquidity and Solvency risk.
- Going concern.
- Loss of Market share.
- Lack of appropriate ICT systems
- Labour unrest
- Performance management
- Reputation and image

11. Stakeholder Engagement Consultation

Stakeholder Grouping	Stakeholder Expectations	Autopax's Promises	Autopax's Expectations	Communication Channels
All Stakeholders including organised labour	<ul style="list-style-type: none"> Compliance with relevant legislation and policies. Adherence to Good Governance Deliver Primary and Secondary Mandate Deliver Public Value 	<ul style="list-style-type: none"> Fairness and Integrity Transparency Good Governance Respect and uphold the Constitution Respect for our customers Deliver in accordance with the mandate 	<ul style="list-style-type: none"> Support for Autopax's business objectives and delivery of the mandate 	<ul style="list-style-type: none"> Website Corporate Plan PRASA Get on Track PRASA Annual Report Print and electronic media Social Media Meetings
Shareholder	<ul style="list-style-type: none"> Deliver Primary and Secondary Mandate Deliver Public Value; Upholding the Constitution Adherence to Good Governance Deliver on the NDP and other Govt. Imperatives 	<ul style="list-style-type: none"> Deliver in accordance with our mandate Fairness and Integrity Good Governance and Respect for the Constitution Respect and meet our customers' expectations 	<ul style="list-style-type: none"> Funding and Support for Autopax strategic objectives 	<ul style="list-style-type: none"> Shareholder Compact and Corporate Plan Corporate Plan Annual Report Official meetings Official correspondence Quarterly Report
Passengers	<ul style="list-style-type: none"> Deliver Public Value; Meeting and exceeding expectations Safety and Security of Commuters and Passengers 	<ul style="list-style-type: none"> Available, Reliable, Predictable, Safe and affordable Service Clean facilities Uninterrupted end-to-end passenger journey 	<ul style="list-style-type: none"> Consumption of PRASA products and services Payment for PRASA product and services Protection of PRASA assets, employees and infrastructure 	<ul style="list-style-type: none"> Customer Service/Call centre Public Address Posters and Flyers SMS Social Media Print & Electronic Media

Stakeholder Grouping	Stakeholder Expectations	Autopax's Promises	Autopax's Expectations	Communication Channels
Communities	<ul style="list-style-type: none"> ▪ Consultation and information about delivery of key projects ▪ Participation in the project execution and delivery at local level 	<ul style="list-style-type: none"> ▪ Openness, Fairness and Integrity ▪ Participation and inclusivity in project delivery ▪ Training and capacity building of communities ▪ Funding and CSI support 	<ul style="list-style-type: none"> ▪ Support and endorsement of Prasa projects and its business objectives ▪ Protection of Autopax deployed assets and infrastructure in communities 	<ul style="list-style-type: none"> ▪ Community Liaison Officers ▪ Direct community meetings ▪ Service providers and developers ▪ Local Government Authorities ▪ PSA Campaigns on print and electronic media ▪ Pamphlets and flyers
Employees	<ul style="list-style-type: none"> ▪ Fair and consistent labour practices ▪ Career and skills development ▪ Regular communication and consultations ▪ Being fairly remunerated for their service. 	<ul style="list-style-type: none"> ▪ Fairness and Integrity ▪ Service Excellence ▪ Training and skills development ▪ Communication ▪ Teamwork ▪ Respect for each other 	<ul style="list-style-type: none"> ▪ Commitment to performance excellence ▪ Commitment to adhere to good governance ▪ Respect for customers and stakeholders 	<ul style="list-style-type: none"> ▪ Notice boards ▪ Email notices ▪ Intranet ▪ Electronic Newsletter ▪ Roadshows ▪ Departmental meetings
Suppliers/Service Providers	<ul style="list-style-type: none"> ▪ Consultation in the identification and delivery of key projects ▪ Transparency and openness in available business opportunities 	<ul style="list-style-type: none"> ▪ Openness, Fairness and Integrity ▪ Equal opportunities for Participation in Autopax projects ▪ BBB-EE compliance 	<ul style="list-style-type: none"> ▪ Support for PRASA's business objectives ▪ SLA's and delivery in accordance with the contract ▪ Compliance with PRASA/Autopax policies 	<ul style="list-style-type: none"> ▪ Bilateral with City/Municipal Manager ▪ Multi-lateral with Local/Provincial Government Officials ▪ Members of Mayoral Committee

Stakeholder Grouping	Stakeholder Expectations	Autopax's Promises	Autopax's Expectations	Communication Channels
	<ul style="list-style-type: none"> Fairness and integrity in contracting for PRASA business Regular communication and feedback on performance expectations 			<ul style="list-style-type: none"> Member of the Executive Committee Official Correspondence
PRASA GROUP EXCO	<ul style="list-style-type: none"> Meeting and exceeding performance expectations and Board directives Compliance and adherence to good governance Delivering in accordance with Primary and Secondary Mandate Financial sustainability 	<ul style="list-style-type: none"> Deliver on the Mandate Performance excellence Transparency and integrity Adherence to good governance 	<ul style="list-style-type: none"> Support and approval of PRASA strategy and business plans 	<ul style="list-style-type: none"> Group Exco meetings Board sub-committee meetings Board Strategy meetings Management reports to Group Exco Direct and one-to-one with Group CEO
Board of Control	<ul style="list-style-type: none"> Meeting and exceeding performance expectations and Board directives Compliance and adherence to good governance Delivering in accordance with Primary and Secondary Mandate Financial sustainability Unqualified Audit 	<ul style="list-style-type: none"> Deliver on the Mandate Performance excellence Transparency and integrity Adherence to good governance 	<ul style="list-style-type: none"> Support and approval of PRASA strategy and business plans 	<ul style="list-style-type: none"> Board meetings Board sub-committee meetings Board Strategy meetings Management reports to Board Direct and one-to-one with Group CEO