

**Analysis of fleet management outsourcing in the Public  
Sector**

By

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CONFIDENTIALITY CLAUSE

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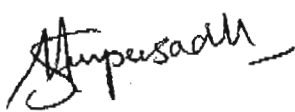
Sincerely

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DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed...  .....

Date..... 11/9/06 .....

## ACKNOWLEDGEMENTS

No undertaking of a project as intense as this study is possible without the contribution of many people. It is not possible to single out all those who offered support and encouragement during what at times seemed to be a “never-ending journey”. However, there are individuals without whom this project would not have been completed, and to them go my special thanks and acknowledgment of their contributions.

I am indebted to my supervisor promoter Dr. Abdul Gani for his expert guidance and my family for their support.

## ABSTRACT

This study investigates fleet outsourcing in government from a strategic perspective as it is integrated into the overall strategy of the Department of Transport. This study attempts to overcome some of the problems associated with outsourcing by integrating a number of key aspects of outsourcing including a value chain perspective, core competency thinking and supply base influences into the decision-making process.

The background of the research highlights the status quo and examples of similar fleet management projects in Government. These include major projects in National Government, Telkom and City of Johannesburg.

The research is motivated by the need for government to find new ways, with limited resources, to achieve maximum efficiency in fleet management by managing these resources and related risks. The value of the research is a holistic approach to the analysis of fleet management the public sector has never been undertaken. The study will also help the state to recognise the impact fleet management has on the state's core activities and offer a tool for measuring fleet management performance.

The research methodology is qualitative and will be based on a case study approach, which is associated with the exploratory nature of this study.

Outsourcing is justifiable if visible costs decrease, service improves and economies of scale are achieved.

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# Chapter 1

## 1.1 Introduction

According to data collated by the Department of Transport, Government operates one of the largest vehicle fleets in the country, with little or no fleet management employed. The estimated fleet size is 225 000 vehicles across national, provincial, local and public entities costing the state billions annually (Fleet management report, Department of Transport, 2005).

Government has undertaken various pilot fleet management exercises since 1999, these being, a national government contract to outsource 2 300 vehicles belonging to the national departments of Water Affairs, Labour, Transport, Health. With the implementation of these contracts, government sought to outsource all risks associated with operating a vehicle fleet (Fleet management report, Department of Transport, 2005).

The Telkom tender was a landmark contract in terms of full maintenance leasing (FML), as it is the largest single contract in Southern Africa. The contractor, Debis Fleet Management, has to supply approximately 19000 vehicles to Telkom over a 5-year period (Fleet management report, Department of Transport, 2005).

Chapter two introduces a literature review on fleet management, outsourcing and the balance score card strategic models. These theories and models are introduced to explore alternative solutions to the fleet management problem in the public sector.

## 1.2. Motivation for the research

The core business of government is to provide public goods and services and not private goods such as fleet management. The state is on a rapid long-term growth strategy with an emphasis on service delivery of public goods and services.

Transport is a key non-core activity in the value chain of service delivery of public goods and service. Therefore further exploration into any area to improve transport services, like fleet management, will have a positive impact on the value chain of essential goods and services.

Companies outsource non-core business functions to third-party providers for various reasons: to reduce head count, to cut expenses, and to improve service (Craumer, M. 2002). In proposing an outsourcing initiative the Department of Transport should not only stress cost savings as suggested by Craumer. Why? Cost savings will be in the following three forms: immediate rands on the income statement; eventual improvements in fleet processes; and avoidance of costs by doing nothing. All cost savings will not show up immediately on the income statement, as some cost savings cannot be quantified.

Key challenges and risks as illustrated in table 1.1, will be analysed in this study to identify the cost drivers for the fleet industry and possible solutions to these risks.

### **1.3 Value of the research and the importance of the area being researched**

This study will provide a holistic approach to the analysis of fleet management the public sector. The study will help the state to recognise the impact fleet management has on delivery of core activities. These core activities are health, education, safety and security and other services offered by the state. National departments will be provided with a tool for effective management of their fleets, which implies that they will have most budgets available to be spent on core activities.

The research endeavours to analyse of the status quo and develop a business model to facilitate effective fleet management in the public sector. Results of the study will be beneficial to all stakeholders within the fleet management sector in South Africa by providing guidelines to implementation of fleet management in the public sector.

According to Dolce 1998, fleet management if applied correctly, will realise productivity savings.

Productivity savings can be achieved if the following four factors are managed:

1. Durability. The ability of a vehicle to function during its lifespan.
2. Reliability. How productive a vehicle is on a daily basis.
3. Operating costs. The cost of operating vehicle in a particular application is managed.
4. Initial cost. All other costs on acquisition of the vehicle.

This study will introduce fleet management principles into a business model to realise productivity savings. A fleet management balance score card will be recommended in chapter 2 as a strategic management tool to measure performance.

#### 1.4. Problem statement

The formulation of the problem statement of this research study is based on the structural and policy changes in government and its effect on fleet management in the public sector. Prior to the change in government leadership in 1994, provincial administrations, government departments and “homeland” authorities mainly sourced fleets and fleet related services through central government garages (Fleet report, Department of Transport, 2005). These government garages were established to provide most fleet services required, including major maintenance. Vehicles were acquired by government garages from motor vehicle manufacturers on a cash basis. However, today, this system has become obsolete due to decentralisation and structural changes of government into national, provincial and local governments. There are 26 government garages in the country that provides 4% fleet services in house whilst 96% is outsourced to the private sector (Wesbank Statistics, 2005).

Existing fleet management models requires national departments to provide funding to the government garages for their first fleet of vehicles and for any subsequent vehicles required. Government garages are financial sustained through service fees levied for fleet services rendered to departments. These service fees was based on a kilometre travelled and was intended to provide for the maintenance/repairs of vehicles and replacement of vehicles at reasonable replacement criteria. This basis of the service fee led to the following problems that still plague fleet management in the public sector, today (Fleet report, Department of Transport, 2005):

- Underutilisation of vehicles.
- Failure by government garages to replace vehicles in terms of reasonable replacement criteria, as specified by the vehicle manufacture guide.
- The fleet service fee does not adequately recover actual cost therefore there is a under recovery of fleet costs by government garages.
- Inaccurate asset registers therefore government garages are not accurately billing departments for the utilisation of all vehicles.
- Duplication of functions in department and government garages which led to an excess in staffing within national departments and provinces.
- Differences in strategies, policies and procedures resulting in inadequate controls.
- Ineffective management and control of the fleet management function.
- No fleet management business model that addresses the problem of delivery of transport when required.

### 1.4.1 Key resources and risks

The key resources required to provide transport to user departments and the key risks relating to these resources are noted below.

Key resources	Key risks
Management and staff	<ul style="list-style-type: none"><li>• Inability to retain and maintain training of management and qualified staff</li><li>• Inability to replace qualified staff who have retired or that are due to retire</li></ul>
Vehicles	<ul style="list-style-type: none"><li>• Retention of vehicles beyond their economical useful lives</li><li>• Inability to maintain ageing vehicles</li></ul>
Spares	<ul style="list-style-type: none"><li>• Inadequate stock holdings</li></ul>
Workshop equipment	<ul style="list-style-type: none"><li>• Inadequate/outdated workshop equipment</li></ul>
Systems	<ul style="list-style-type: none"><li>• Inadequate/outdated systems</li></ul>
Funding	<ul style="list-style-type: none"><li>• Inadequate funding</li></ul>

**Table 1.1 Key resources and risks (Source: Fleet Management report: Department of Transport, 2005)**

Since 1994, national departments have attempted to address the challenges of the inequitable service delivery on essential services such as health, education. This implied a greater demand for funding that inevitably resulted in expenditure on non-core functions, such as government garages or fleets being curtailed. As a result of this cost curtailment, the ageing of the fleet increased, replacement of fleet equipment was stopped, and little or no fleet training was provided to staff and management (Fleet report, Department of Transport 2005).

Due to the lack of controls over vehicles, and in particular inaccurate vehicle asset registers, for some period during the 1990's a moratorium was placed on the replacement of vehicles. This further exacerbated the ageing of the fleet and reduced the fleet management capacity in the public sector (Fleet report, Department of Transport 2005).

During the late 1990's public servants were offered voluntary retrenchment packages or early retirement options. This resulted in a loss of some experienced fleet managers (voluntary retrenchment packages, Department of Public Service and Administration, 1993).

Structural changes and change of policy of government makes a compelling case for creating value through outsourcing, as the fleet management models in the public sector have not kept pace with the policy changes.

Consequently, a strategic business model is required to maximise the probability of success of fleet management in national government. Therefore, to focus the research, the problem statement is: **Should fleet management be outsourced in the Public Sector?**

### **1.5. Objectives of the study**

The objective of this study are:

- ✚ to analyse fleet management in national government;
- ✚ to evaluate the fleet management performance in national government (33 national departments) against fleet management principles; and
- ✚ to establish a strategic management model for fleet management in national government.

### **1.6. Research methodology**

The method of research is non-empirical and based on a qualitative descriptive research approach. Empirical data collated from the survey in national government will be used to perform a cost benefit analysis to strengthen the quality of information and evaluate the results. Finally, qualitative data in the form of email questionnaires will be used to verify the result of the combination of empirical and quantitative data.

Business and management research provides solutions that advance knowledge; addresses business issues and provides a process for solving management problems (Sanders, Lewis and Thornhill 2000:p2-4). The research approach of this study in solving a management problem applies the following six attributes (Sanders, Lewis and Thornhill 2000:p2-4):

#### **a. Definition of the objective of the study**

The objective of the study is defined in chapter 1 under paragraph 4. The objective of this study includes research in the fleet management in the public sector through a sample identified in national government. The research will then be broadened to explore outsourcing of fleet management as a non-core activity in chapter 3 through case studies and definition of the fleet industry in South Africa.

**b. Definition of research procedures**

The research procedures to be followed are defined and detailed in chapter 4.

**c. Planning procedures**

The planning of the study will focus on finding a business solution to the problem statement and achieve the research objectives.

**d. Review research imperfections**

The uses of multiple research methods are designed to examine a range of fleet management elements and processes. The multiple methods used in triangulation approach were the application and interpretation of principles identified in the literature study, cost benefit analysis. The interpretative paradigm is relevant in this study, since the perceptions and understanding of fleet management of practising fleet managers were determined, which prove that fleet operations of organisations are based on human interaction.

**e. Data analysis (evaluation and interpretation of data)**

All data will be analysed in order to determine its relevance, validity and importance in the study. Data was gathered by circulating questionnaires via email to thirty-three (33) fleet managers within national government. The analysis of data is detailed in chapter 5 and the questionnaire is attached at Annexure 1. Complementary to the primary information, literature sources (text books, academic journals, and websites) will be studied to obtain relevant secondary information in chapter 2.

**f. Conclusions and recommendations**

Finally, conclusions and recommendations will be limited to the data and information gathered to justify the research topic and problem statement.

**1.7. Research design**

The approach of the research design will be triangulated with a cost benefit analysis to confirm validity of the study. Snow and Anderson (cited in Feagin, Orum and Sjoberg,1991) asserted that triangulation could occur with data, investigators, theories, and even methodologies. Stake (1995) stated that the protocols that are used to ensure accuracy and alternative explanations are called triangulation.



Research design is the string of logic that ultimately links the data to be collected and the conclusions to be drawn to the initial questions of the study (Ghauri and Gronhaug, 2002). Typically, research designs deal with at least four problems:

- what questions to study;
- what data is relevant;
- what data to collect; and
- how to analyse that data.

## **1.8. Structure of the study**

### **1.8.1 Chapter 2**

The study will be presented in different chapters. Chapter 2 will cover the theoretical section on the dissertation, theories and models on business process outsourcing, outsourcing, value chain, and supply chain and balance scorecard. The balance scorecard theories and models will be utilised to determine the impact and performance measurement tool for the fleet management strategy.

### **1.8.2 Chapter 3**

Chapter 3 will provide a brief fleet management perspective in South Africa. A historical synopsis is given on the development of fleet management companies, products and services to define conduct in the fleet management operating environment. The case studies are discussed in the context of the problem statement established in chapter 1.

### **1.8.3. Chapter 4**

Chapter 4 will focus on the approach to the research design and methodology in an effort to address the problem statement - **Should fleet management be outsourced in the Public Sector**. An empirical investigation will be performed using a questionnaire that will be triangulated with a cost benefit analysis and fleet management and outsourcing concepts established in chapter 2.

### **1.8.4 Chapter 5**

Chapter five will present the data analysis and interpretation of data collected to answer the research problem. A detailed review of the fleet management in the public sector will be presented with the cost benefit framework. A complete cost analysis will be undertaken to determine the cost benefit of fleet management outsourcing in the public sector.

Chapter five presents an evaluation of the information in chapter three against the theory and model developed in chapter two on outsourcing. The evaluation within this chapter will lead to a conclusion on the impact of fleet management in the public sector.

### **1.8.5 Chapter 6**

Chapter six will culminate in conclusions and recommendations drawn from the research study. Recommendations will be based on the research findings in chapter 5, benchmarked against case studies established in chapter 3 and literature review in chapter 2.

## **1.9 Conclusion**

Fleet management plays an important supporting role for core activities such as health and education, in the public sector. Structural and political policy changes in the public sector in 1994 have rendered existing fleet management models obsolete.

It is important to note that optimising service delivery of core activities (health, education and housing) will remain a priority of government but neglecting key non-core functions that support the delivery of these essential services will probably negatively effect the delivery of these services.

As indicated in the fleet management report by Department of Transport (2005), government is the largest fleet owner and consumer of fleet services without effective fleet management. Furthermore government fleet costs in estimated at R4.5 billion per year but remain a non-core activity (Wesbank statistics, 2005). Therefore, the relevance and value of this study of fleet management outsourcing will contribute to addressing the magnitude and associated costs of the fleet management problem in the public sector.

# Chapter 2

## 2.1 Introduction

Chapter 1 of this study centred on the fleet management problem in the public sector. Chapter 1 also introduced the recognition of the impact fleet management, a non-core activity, has on delivery of core activities such as health, education, safety and security and other public services offered by the state.

Chapter 2 will cover the theoretical section of the dissertation detailing theories and models on business process outsourcing, outsourcing, fleet management, value chain, and supply chain and balance scorecard. These theories and models will be applied in chapter 4 to analysis fleet management in the public sector.

Various models and theories within the literature review of chapter 2 also provide a framework to analyse fleet management and to determine the appropriate management approach to outsourcing of fleet management in the public sector.

## 2.2. Limitations of this study

Once key variables have been identified, they can be analysed. Reliability becomes a key concern at this stage, and many case study researchers go to great lengths to ensure that their interpretations of the data will be both reliable and valid. Because issues of validity and reliability are an important part of any study in the social sciences, it is important to identify some ways of dealing with results.

Fleet management is a field of study with little or no literature and theory, therefore outsourcing, business process outsourcing, supply chain and strategic management theory and models are adapted to document this case study.

During the data collection phase, the validity and reliability of the data is subject to the level of understanding of the respondents in the public sector. Financial data is based on the data provided at a specific point in time and is subject to change, as priorities in the public sector change.

The application of the balance scorecard is mainly for the private sector with profit motives. However, in the public sector the financial perspective imposes a limitation, as the public sector does not have a profit motive but an efficiency motive. According to P.R. Niven, 2003, in the public

sector, finance is based on budgets and the public sector cannot be measured how much or how little they spend. Therefore financial considerations in terms of the balance scorecard methodology will not be a key objective.

### **2.3 The outsourcing process**

This section examined literature on the outsourcing process, fleet management and the balance scorecard that provided the methodology to measure performance. The measurement of fleet efficiency and availability is illustrated within the context of a strategy-focused state that employs the balance scorecard to manage performance. In the following section, a theoretical discussion on outsourcing was presented.

Frey believes that outsourcing has the potential to do away with the boom-and-bust cycles that many industries experience on an ongoing basis. In theory, outsourcing is simple as government or companies can unload non-core activities, shed balance sheet assets to achieve capital efficiency, and boost a return on capital by using third-party service providers.

In their article "Linking Outsourcing to Business Strategy," Insinga and Werle, 2002 advised that organisations should control or acquire activities that provide competitive differentiators or have the potential to yield a competitive advantage, and to outsource the rest. They make a distinction between "core" and "strategic" activities.

Outsourcing is viewed as a form of predetermined external provision, with another enterprise or business partner, for the delivery of goods and/or services that would previously have been offered in-house (Elfing and Baven, 1994; Domberger, 1998; Kliem, 1999; Finlay and King, 1999). Outsourcing decisions can impact on flexibility, customer service and the core competencies of the organisation. (Hamel and Prahalad, 1994)

DiRomualdo and Gurbaxani, 1998 argue that firms use outsourcing in order to satisfy any one or more of three strategic intents, namely strategic improvement (cost reduction and enhancement of efficiency) thus improving a companies' performance within existing lines of business and strategic commercial exploitation like leveraging its assets. Although the strategic literature suggests that the reason for outsourcing has changed from primarily cost disciplines to strategic re-positioning, core competence enhancement, greater service integration and/or higher value creation (Quinn, 1999), the US auto industry provides compelling evidence of outsourcing as primarily driven by cost reduction

efforts (Chalos and Sung, 1998). For example, Chrysler estimated that, for the fiscal year 1997, supplier cost reduction efforts (“SCORE”) would add \$325 million to its annual profits and eventually generate over \$1.2 billion in savings (Chalos and Sung, 1998).

Similarly, General Motors insists that its 30,000 worldwide parts suppliers must hold warranty costs below predetermined levels (Blumenstein, 1997), and, through such discipline, attempt to eliminate waste through the entire supply chain (Christian, 1997).

Reduced co-ordination costs imply an “unbundling” of functions, making it easier and more efficient to enter into value chains rather than maintain in-house ownership (Kakabadse and Kakabadse, 1999). Particular research findings (Blaxill and Hout, 1991; Chalos, 1994; Teng, 1995) suggest that the key strategic factors that influence a firm's decision to outsource functions centers around cost, technological innovation and knowledge enhancement considerations. An enterprise would consider outsourcing when in-house performance falls below the performance of external suppliers (Blaxill and Hout, 1991; Chalos, 1994). Quinn, 1999 suggests that, unless the company develops best-in-world capabilities, including transaction cost disciplines, the company should purchase goods/services from providers who have best-in-world skills, in order achieve competitive edge.

Halvey and Melby, 2000 define business process outsourcing (BPO) as the management of one or more specific business processes or functions (e.g., procurement, accounting, human resources assets [vehicles] or property by a third party). Outsourcing of business processes would allow the organisation to focus on core competencies while having a qualified third party to focus on and add value to non-core processes.

Kaplan and Norton, 1996 define the balance scorecard as a system that aligns the strategy of the organisation to performance measures being finance, customers, internal and innovation and learning that helps the organisation to translate and implement strategy.

Kaplan and Norton, 1996, indicates, “If you can measure it, you can manage it”. The public and private sector can apply the balance scorecard, as it can be utilised to:

- clarify and gain consensus in government about the fleet strategy;
- communicate strategy throughout the government;
- align all department’s strategy to one fleet management strategy;
- identify and align strategic initiatives;
- perform periodic and systematic strategic reviews;
- obtain feedback to learn about and improve strategy; and

- manage processes like fleet outsourcing.

According to Kaplan and Norton, 2001 the essence of strategy is choosing to perform activities differently from competitors to provide a value proposition, which is their competitive advantage. The strategy implies the movement from the status quo of fleet management to a desired future position. “The balance scorecard enables the strategic hypotheses to be described as a set of cause-and effect relationship that is explicit and can be tested.”

In a case study, of implementation of the balance scorecard at the Bank Indonesia, the bank created a very advanced performance management system (Internet 1). They cascaded scorecards and delegating responsibility and accountability of key performance indicators to team and individuals. The bank also linked key performance indicators to work and competence assessment by their human resources department and linked follow-up of strategic initiatives to project management. This proves that a performance management system is integral management tool for a strategy-focused organisation.

According to Bowersox and Closs, 1996, when any organisation identifies a need to produce a good or service, the first step is to determine if they will produce or perform. The “make or buy” decision is therefore centred on economic and strategic trade-off. Strategic trade-offs include the assessment of a core competency and low cost. The key strategic factor to consider is the performance capability of the state in relation to the private sector provision of the same service. Furthermore, the state should clearly identify which activities are critical core competencies. The outsourcing decision should not be based on the financial factors alone, but on the skills and resource capabilities that enable a best practice performance to achieve desired results. If the fleet management capabilities do not exist within the public sector then such activities should be outsourced.

#### 2.4 Prerequisites for implementing supply chain

A successful supply chain strategy is based on six basic principles (Hugo, Badenhorst-Weiss, & van Rooyen, 2002).

- ✚ **Value adding.** The supply chain management approach requires all processes to be re-engineered to avoid wastage and optimal use of resources. Outsourcing plays a vital role in the optimisation of processes and activities.
- ✚ **Inter-organisational co-operation and strategic partnership.** A degree of co-operation and integration of enterprises in supply chain is required to limit wastage and increase value.

- ✦ **Cost transparency and total cost approach.** Cost transparency of all parties in a supply chain eliminates waste. A holistic approach to cost management, “total cost of supply” or “a total cost of ownership” should be followed.
- ✦ **Total Quality Management [TQM].** TQM is applied to improve efficiency and save costs. Other concepts relating to TQM are: benchmarking, JIT, employee empowerment and customer focus and *kaizen* [continuous improvement].
- ✦ **Systems integration.** Electronic systems are required to integrate flow of communication and improve response times.
- ✦ **Human resource training and development.** The human factor could be viewed as a threat to supply chain integration, as it is an integral part of the supply chain.

## 2.5 The theory of outsourcing

The theory of outsourcing is presented in terms of business process outsourcing as a test for management competence. Key aspects under discussion will be the definition of core vs. non-core activities, managing and specifying standards for performance and evaluation thereof. Common technical competencies for outsourcing are outlined to determine the capacity to manage these outsourced agreements.

Outsourcing is presented as a dilemma in terms of the make or buy decision facing management. This dilemma is presented in terms of the key drivers and decision criteria to determine to outsource or not.

The outsourcing process will be presented in a practical framework within a strategic perspective to achieve long-term goals without only focusing on short-term cost reduction goals. The main aim is to illustrate that outsourcing should be carried out from a strategic perspective and integrated into the overall strategy of the state by proposing outsourcing framework.



Outsourcing is a paradigm shift and its impact is measured on a balance scorecard. The balance scorecard of the state's procurement system is measured in terms of the model shown in Figure 1.

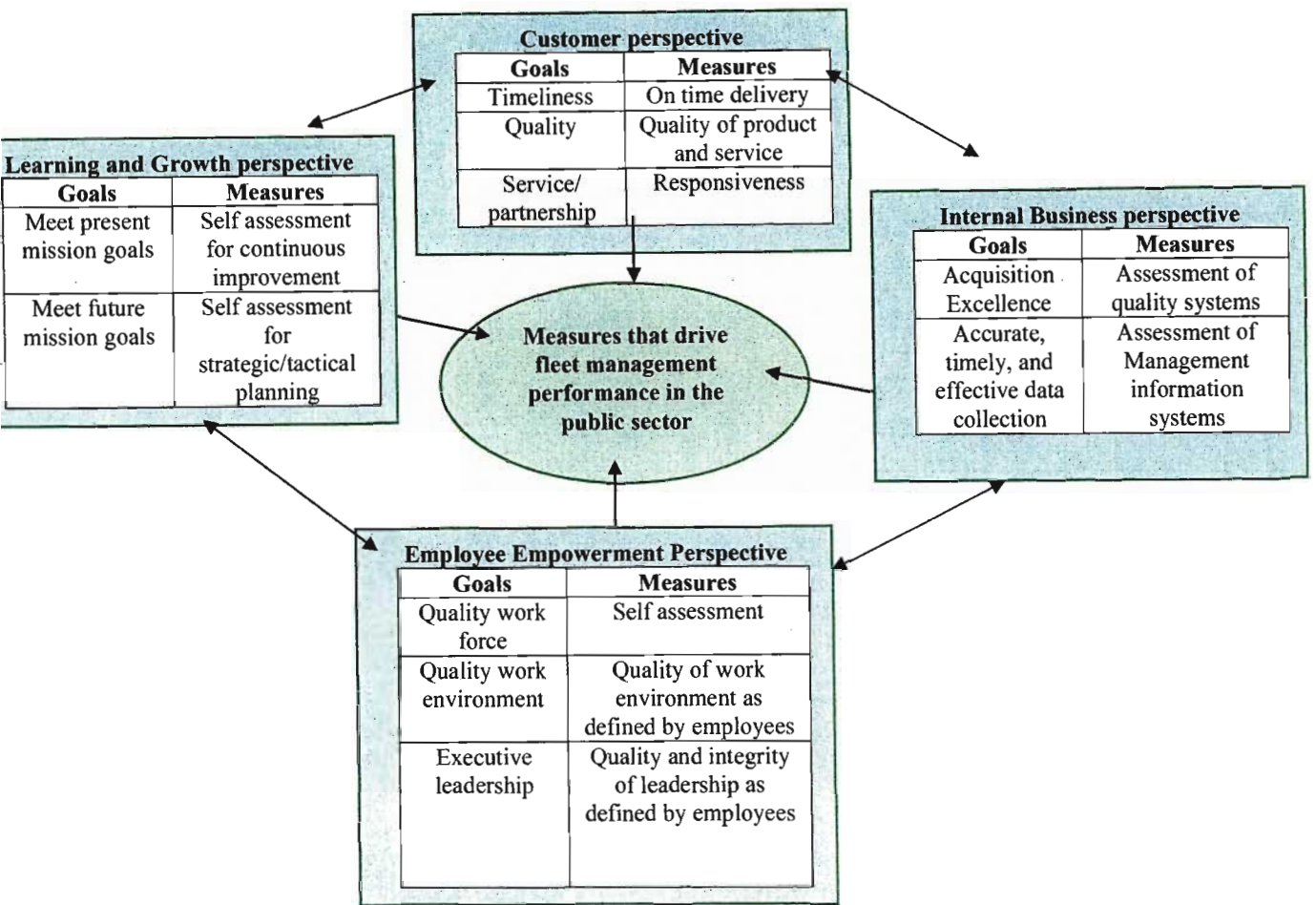


Figure 1: The Balance Scorecard. (Source: Kaplan and Norton, 1992)

## 2.6. The outsourcing concept

The following section presents a theoretical discussion on outsourcing. The literature and research review current trends and at the same time identify the changes that are taking place in outsourcing paradigm. Drivers of outsourcing are examined through current practices in the public sector organisations, with special focus on the fleet management industry.

Heywood, 2001 defines the outsourcing concept as transferring an internal business function and associated assets to an external supplier who offers a defined service for a specified period of time, at an agreed qualified price. Outsourcing is often associated with value adding and not simply a transfer of a function with assets. Therefore, outsourcing should be measured to determine the extent of value add to an organisation.



Heywood, 2001 defines business process outsourcing as outsourcing of a varying mix of non-core processes. Business processes that can be outsourced range from finance, internal audit, fleet management, to procurement and customer support centers.

According to McIvor, 2000 companies outsource for various reasons. The decision to outsource is often taken without consideration of a company's strategy. The short-term goal of outsourcing is often cost reduction in the business process. Successful outsourcing will only be achieved in the context of the company's long-term strategy and framework. The framework is essential to prevail over the problems associated with outsourcing. These problems can be resolved by integrating a number of key elements related to outsourcing, including a value chain, core competency thinking and supply chain influences, into the decision-making process. The outsourcing decision is a major determinant of profitability or efficiency in the public sector and thus results in contributing to the financial health of the company by reducing costs and introducing efficiencies (Yoon and Naadimuthu, 1994).

According to Lonsdale and Cox, 1997, many companies do not have a definite outsourcing framework to determine the "make or buy" decision. A company often makes an outsourcing decision to achieve short-term cost reductions by reducing staff numbers. Furthermore, the choice of which activities to outsource is made by ascertaining what will save most on overhead costs, rather than on what makes the most long-term business sense.

McIvor, 2000 stated issues that should be addressed to achieve successful outsourcing are listed below:

- Understand and address the influences on the outsourcing process.
- Determine the level of process integration required depending on the activity being outsourced.
- Outsourcing decisions must be based on a long-term strategy of the company.
- Fully understand the functions involved in the decision-making process.
- The level of the cost-benefit analysis must be executed to determine the "make or buy" decision.
- Role of suppliers in the process and the level of control of supplier are significant. In terms of Porters Five Forces model, control of suppliers must be archived to attain competitive advantage.
- Should the company strive to build and maintain its capability in a particular activity or turn to the best-in-class outsourced alternative?

- Does the internal design of in-house capabilities of the company lag behind potential suppliers or competitors?
- If there is a disparity between the company and suppliers, how much investment is required internally to match the capabilities of the suppliers or competitors?

Outsourcing is a paradigm shift. Companies will outsource to satisfy any one or more of three strategic intents, namely (McIvor, 2000):

- i. strategic improvement (cost reduction and enhancement of efficiency);
- ii. strategic business impact (improving contribution to companies' performance within existing lines of business); and
- iii. strategic commercial exploitation (focus on leveraging technology-related assets).

The strategic literature suggests that the reason for outsourcing has changed from primarily cost disciplines to strategic re-positioning, core competence enhancement, greater service integration and/or higher value creation. An enterprise would consider outsourcing when in-house performance falls below the performance of external suppliers (Blaxill & Hout, 1991; Chalos, 1994). Quinn, 1999 suggests that, unless the company develops best-in-world capabilities, including transaction cost disciplines, the company should purchase goods/services from providers who have best-in-world skills, in order achieve competitive edge.

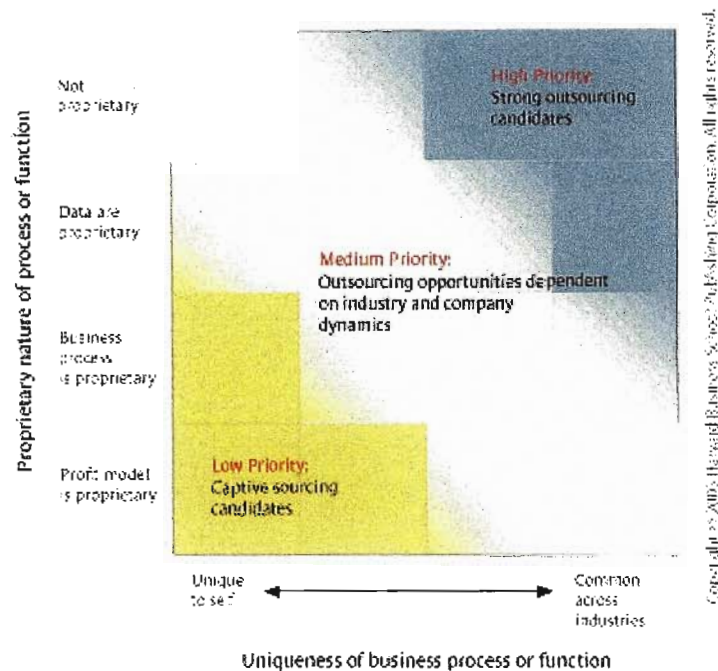
According to Gottfredson, Puryear and Phillips, 2005 outsourcing became another word for procurement a financial tool but strategically peripheral. As the world changes companies and even the public sector must find new ways of achieving more with less resources. Therefore, ownership of capabilities is not as important as the ability to control and make the most of critical capabilities.

With reference to Figure, 2 and 3, to meet a country's ever increasing needs, government must be forward thinking like a private company and make the value chains more elastic and their organisations more flexible. Vertical integration business model for fleet management has been applied unsuccessfully in government for the past 10 to 20 years. Government had centralised the control of fleet to national government and vertically integrated its business as one government department relied on the other for this essential service. This business model has declined over the years, therefore the best alternative would be outsourcing which would become a strategic business process for government. Migrating from a vertically integrated company to a specialised provider should be based on capability sourcing that would improve the strategic position by reducing costs, streamlining the organisation, and improving quality.

In terms of Figure 2, “what to outsource”; a company can plot its capabilities on the sourcing opportunities map to judge the merits of the company’s outsourcing possibilities. The vertical axis represents the measure of ownership / propriety of a process or function. The horizontal axis measures the unique nature of the business process within or outside the industry.

### What Should You Outsource?

Using this sourcing opportunities map, you can determine which functions have the highest outsourcing potential and which should remain under your company's control. The vertical axis measures how proprietary a capability is for your company. The horizontal axis plots how common the capability is within or outside your industry. The less proprietary and the more common a function is, the stronger a candidate it is for outsourcing.

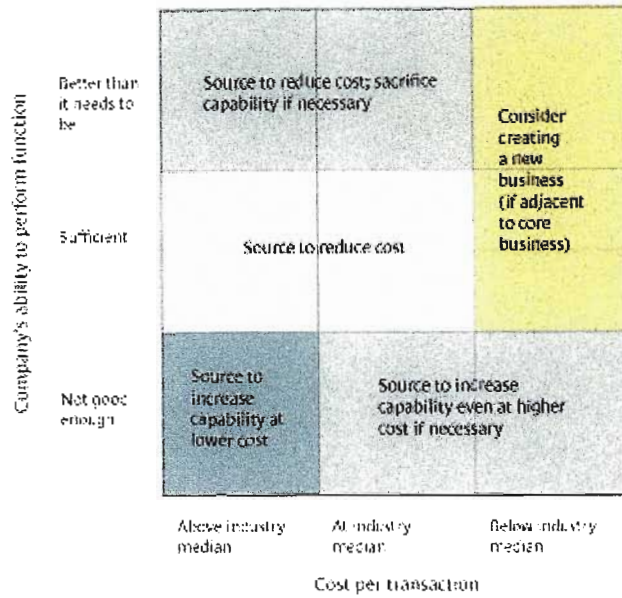


**Figure 2: What to outsource in terms of ownership vs. uniqueness of a function. (Source: Puryear & Phillips, 2005. An article on Strategic Sourcing. From Periphery to the Core)**

The capability assessment map, Figure 3, plots capabilities according to cost and quality in relation to market leaders or competitors. The map determines the key capability gaps a company should identify and address to achieve competitive advantage.

## How Strong Are Your Capabilities?

Once you've determined which capabilities offer the highest potential value from outsourcing, you need to see how well, and how efficiently, your company currently performs each one of them. This exercise may surprise you: If your cost per transaction is low enough and your quality high enough, you should be thinking of selling that function as a new business in itself.



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**Figure 3: Determining capabilities of a company. (Source: Puryear & Phillips, 2005. An article on Strategic Sourcing. From Periphery to the Core)**

Outsourcing is defined as a form of predetermined external provision with another enterprise for the delivery of goods and/or services that would have been offered in-house (Elfing & Baven, 1994; Domberger, 1998; Kliem, 1999; Finlay and King, 1999). Outsourcing is not a new concept but dates back to eighteenth-century England. (Whang, 1992; Quinn & Hilmer, 1994; Reyniers & Tapiero, 1995; Cheon et al., 1995; Ang & Straub, 1998). Williamson (1996, p. 133) argues that “firms and markets are alternative modes of organisation, and that the boundary of the firm needs to be derived rather than taken as given”. Economic analysis of outsourcing suggests that competition will result in savings and greater efficiency (Ginsburg and Michel, 1988; Besenko et al., 1996).

Economic analysis has limitations, as it does take into account leadership, management capabilities, co-operative relationships that are crucial in effective outsourcing projects. (Kakabadse & Kakabadse, 1999).

Government and companies may outsource for many other reasons but a prime reason will always be cost reduction. A study conducted by PriceWaterhouseCoopers, 1999 deduced that outsourcing has progressed from attending to a single function to more complex processes to attain efficiency. Daimler Chrysler, for example, outsourced the management of its supplier relationship portfolio to Andersen Consulting in France.

The ideas of core competence and its relationship to outsourcing have evolved from the work of Prahalad and Hamel (1990), which indicates that core competencies are not physical assets. However, Prahalad and Hamel (1990) argue that the real sources of competitive advantage are to be found in management's ability to consolidate technologies and production skills into competencies that empower businesses to adapt rapidly to changing business opportunities. They argue that core competencies are "the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies".

The outsourcing decision is often based on retention of core activities and outsourcing non-core activities. Alexander & Young (1996) defines "core activity" as:

- (1) activities performed in-house;
- (2) activities critical to business performance;
- (3) activities that create current or potential competitive advantage; and
- (4) activities that will grow, innovate, or rejuvenate the business.

However, there is an alternative view of those activities that are considered to be core activities, which can be outsourced (Quinn & Hilmer, 1994). Quinn & Hilmer (1994) formulated the term "strategic outsourcing" that defines core activities within a company. Nike, for example, outsourced shoe production and manufactures only the key elements of its "Nike Air" system. Nike maximises value by focusing on the production of what is unique to them, such as research and development and post-production activities, i.e. distribution, sales and marketing, with the exception of advertising, which has been outsourced.

Both views applied to different business models prove to have equal merit. Core activities should stay in-house, whilst non-core activities can be outsourced, in order to preserve core competencies.

## **2.7 Advantages and disadvantages of outsourcing**

### **2.7.1 The advantages of outsourcing are (Kliem, 1999; Quinn, 1999):**

- enabling existing staff to concentrate on core activities on organisational specializations;
- focusing on achieving key strategic objectives;
- lowering overhead costs;
- gaining cost advantage over the competition;
- flexible in changing market conditions;
- reducing investment in technology;
- decreasing the product/process design cycle time;

- using of multiple best-in-class suppliers, who work simultaneously on individual components of the system;
- each supplier can contribute greater depth and sophisticated knowledge in specialised areas and thus offer higher quality inputs than any individual supplier or client (Quinn and Hilmer, 1994);
- utilisation of external suppliers' investments, innovations, and specialised professional capabilities that is expensive to replicate; and
- transferring fixed costs into variable costs by selling assets to an outsourcing vendor is considered an advantage for many organisations. The company receives cash payment and transfers fixed costs into variable overheads (Currie and Willcocks, 1997).

### **2.7.2 Disadvantages for outsourcing strategies are:**

- over reliance on outside suppliers for services;
- hidden cost savings to outsourcing;
- losing control over critical functions;
- managing relationships that go wrong between company and supplier;
- lowering the morale of permanent employees (Currie and Willcocks, 1997; Kliem, 1999);
- generating of new risks, such as the loss of critical skills or developing the wrong skills, the loss of cross-functional skills, and the loss of control over suppliers (Quinn and Hilmer, 1994; Domberger, 1998). These risks arise when the supplier's priorities do not match client needs;
- short-term contracts, based on the principle of the lowest winning bid, are claimed to stifle incentives to outsourcing;
- poor development and indication by a company's expectations in a tender document resulting inadequate service delivery;
- tender specifications for outsourcing that do not match the company's expectations;
- mismanagement or lack of contract management of long terms contracts; and
- inflexibility of long-term contracts that do not match prevailing market conditions. Example is changes in interest rates and rate of exchange.

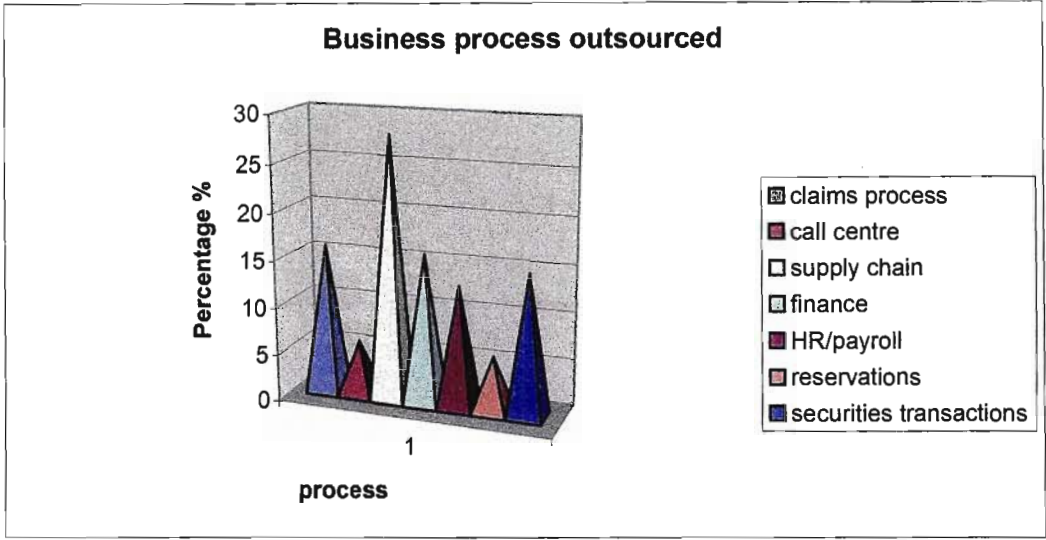


In contrast to the benefits of outsourcing, Beasley, Bradford and Pagach, 2004 caution companies against potential risks that arise from outsourcing. Outsourcing business process like fleet management will cut costs and maximise profits, but other significant risks will arise such as increasing process costs, strategic market, operations, and legal and reputation risks.

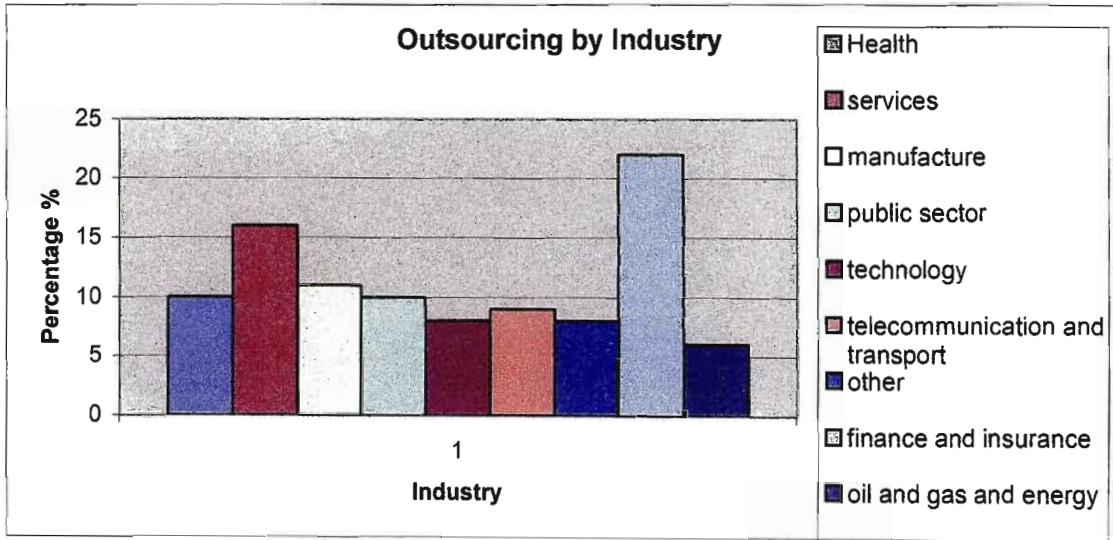
<b>Risks</b>	<b>Extent of risk</b>
<b>Strategic /market</b>	Threat to strategic and market position if outsourcing to overseas companies.
<b>Operational</b>	Threaten the ability to maintain core operations effectively if skills not available.
<b>Finance</b>	Inability to finance the transaction by the supplier
<b>Human capital</b>	Reduce or increase burden of cost of human capital
<b>Legal/regulatory</b>	Comply with laws e.g. competition laws.
<b>Technology</b>	Increase of reporting requirements will increase technology needs.
<b>Reputation</b>	If the service provider does not comply with laws and service is bad then it will affect the company contracting out the service.

**Table 2.1: Extent of risk. (Source: Beasley, Bradford and Pagach, 2004)**

According to the assessment of Beasley, Bradford and Pagach, from 1997 to 2003 business process outsourcing is expected to grow from \$38 billion in 2003 to \$1.2 trillion by 2006. Outsourcing trends in these companies are similar, as the prime reason for outsourcing was cost containment and to capture huge labour cost savings by shifting core and non-core business processes to a specialist service provider. A breakdown of business process outsourcing from these 300 US companies, from 1997 to 2003, is illustrated in table 2.2.

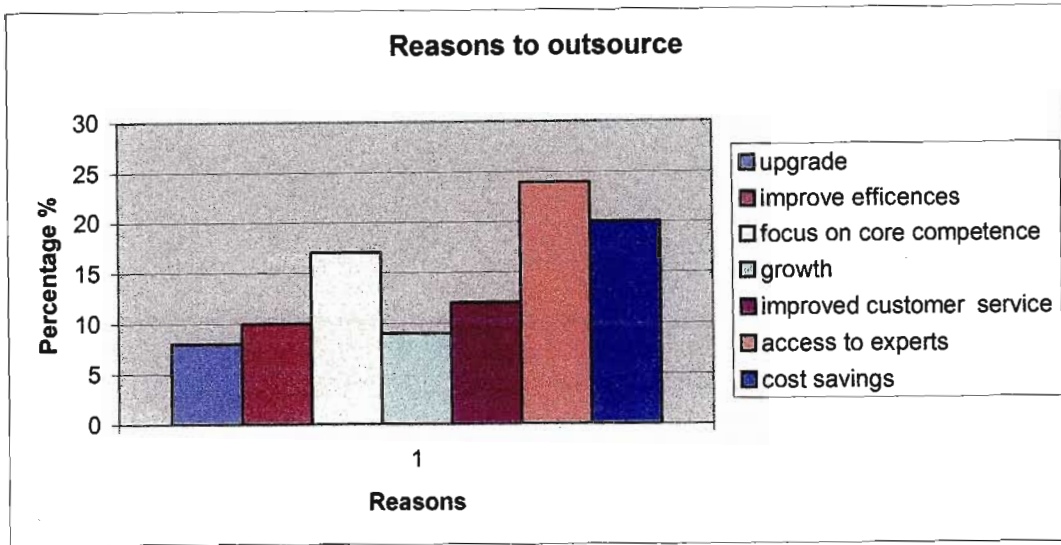


**Table 2.2: Business process outsourced (Source: Beasley, Bradford and Pagach, 2004)**



**Table 2.3: Outsourcing by industry. (Source: Beasley, Bradford and Pagach, 2004)**





**Table 2.4: Reasons to outsource. (Source: Beasley, Bradford and Pagach, 2004)**

Opponents of outsourcing scoff at a reason for outsourcing other than cost savings, arguing that anything other than cost savings is merely a public relations tactic to shift the debate to labour costs.

## 2.8 Customer satisfaction

An outsourced service does not always imply customer satisfaction. Research indicates that almost 70 per cent of companies who have instituted outsourcing state that they are unhappy with one of more aspects of their supplier's service that affects their customer satisfaction. Dissatisfaction can be an outcome in all types of outsourcing deals, in which either the wrong provider has been contracted, or the goals, the provision of service, the guarantees and the relationship have been inappropriately designed (Peisch, 1995). Furthermore, companies express dissatisfaction with the nature of the contractual document in terms of:

- underestimation of time and the skills needed for the management of outsourcing contracts;
- lack of ownership clarity;
- unsatisfactory delivery of services;
- unco-operative suppliers;
- cost of the service being too high and/or the competitive advantage (Kliem, 1999);
- poor outsourcing decisions are the direct result of an inadequate definition of customer requirements (Forst, 1999); and
- when the transition from internal to external service delivery proves to be a complex and demanding process (Kessler et al., 1999).

## 2.9 Outsourcing and the implications for human resource development

Outsourcing has an effect on human resource development in positive and negative ways.

During the outsourcing process it becomes inevitable for a company to transfer ownership and responsibility for activities traditionally carried out internally to the outsourced service provider.

The transfer of activities has an impact on the company's organisational structures in terms of reductions in personnel in order to improve the efficiency of the company by reducing costs. Personnel cost is one of a public company's largest cost drivers. Maintenance of cost disciplines reflects on a company maintaining competitiveness in the market and efficiency in terms of public companies (Cameron, 1994).

It is inevitable that the company performance will improve in three areas by introducing new skills and working practices, reducing staff numbers, and by modifying individual incentives, employment terms and attitudes in the workplace. Usually in cost cutting, management will decrease staff costs, as it is more able to predict future costs than predict future revenues. (Mishra et al., 1998). A company will realized immediate economic benefits from a reduced work force as expenses will be reduced, and there will be increased returns on investment, higher profits and improved stock prices (De Vries & Balazs, 1997).

Outsourcing is a radical change in business processes and with change come fear of change and employee resistance to change (Domberger, 1998). Research shows that in many outsourcing projects the desired expectation were not realised because organisational and staff issues were neglected.

The impact of outsourcing will be realised based on effective planning, communication to employees and implementation within the organisation. Redundancies and layoffs are common in outsourcing situations, despite the transfer of personnel to service providers, the deployment of staff within the organisation, outplacements and voluntary early retirements (Mishra and Mishra, 1994; Domberger, 1998).

In response to the negative implications of downsizing, companies are undertaking outsourcing projects that include the transfer of staff to service providers. Depending on the nature and size of the project, service providers take over the entire workforce of outsourced activity as a condition of contract for a specified minimum period. For example, when Telkom outsourced its fleet of 29 000 vehicles in 1998, the entire subsidiary of Telkom, Fast Fleet, were taken over by Debis Fleet Management as a condition of contract. These conditions of contract will carry a higher contract

price, as the service provider has to face short-term constraints on efficiency gains because of the cost of carrying surplus labour.

## **2.10 Outsourcing in the public sector**

From the early 1980's outsourcing and privatisation in the public sector began to grow an answer to changes in the business environment. The publication of *Reinventing Government* (Osborne & Gaebler, 1992) emphasized the need for competition and customer choice as a means of delivering improved and yet more cost-effective public services. The impact of this new philosophy was applied in Australia, New Zealand, Europe and other "mixed economies", which had major state-owned enterprises and a major share of economic activities run by the state, Boston, 1995. The UK, Australia and New Zealand implemented market economy practices to a greater extent than the US administration (Donahue, 1989). These countries generated competition through outsourcing to a variety of governmental processes. Government pressure and legislative requirements such as Local Government Act 1998 in the UK, had forced government organisations to outsource public services via competitive tender. This act made competitive tendering for local authority services compulsory in the UK.

Research published by the OECD (1997) indicates that many business processes can be contracted out in the public sector, for example: international airport operations by the city of Indianapolis in the USA and ACSA in South Africa and India; information technology based process in the UK and in Australia; case management services for the unemployed by the Department of Employment, Education, Training and Youth Affairs, Australia; internal audit functions by the New Zealand Audit Office; and cleaning services and fleet management in South Africa.

### **2.10.1 Advantages of outsourcing in the public sector**

- A split in functions has led to improved client responsiveness and better government decision making through purchaser-provider arrangements in Australia, New Zealand and the UK, instituted by the Australian Department of Finance (1995).
- "Many of the improvements in quality appear to derive from better specialisation of the service by the purchaser, improvements in monitoring and the ability to pursue external expertise". (study by the Australian Industry Commission, 1996, p. 9).
- Research at English local authorities indicates that in-house teams under contract save between 7-10 per cent whilst private contractors, in contrast, generated savings nearer to 20 per cent (Szymanski, 1996). These savings arise from outsourcing services to take advantage

of the benefits of competition under circumstances where the supply side is well developed, with a reasonably large pool of potential providers.

### **2.10.2 Disadvantages of outsourcing in the public sector**

- Monitoring contract performance encourages greater emphasis on inspections and maintenance of quality standards (Walsh, 1991). However, difficulties are experienced in the monitoring and managing of public sector contracts due to the lack of skills and capabilities in those areas (US General Accounting Office, 1997). In the USA, for example, performance monitoring is the weakest link in the US Government's privatisation process, due to the lack of skilled personnel available (US General Accounting Office, 1997, p. 17).
- Other concerns and problems focus on quality, ownership of physical assets, public sector accountability and effect on employment. According to Hart, 1997, “service providers reduce costs in ways that lead to substantial degradation of quality of services”, a situation which has led to the phrase “quality shading” describing slow, progressive drops in quality.
- The transfer of ownership of physical assets should not influence the outcome any outsourcing arrangements. The effect of outsourcing depends on the activities being outsourced, and the value and “specificity” of the physical assets required producing the desired service (Domberger, 1998). For example, the UK's Ministry of Defense outsourced helicopter training and required the provider to purchase the 38 helicopters that were previously attached to this training activity. The pricing of this contract becomes a barrier to entry for potential supplier that does not have the required capital to acquire these assets (Domberger, 1998).

### **2.11 A Deloitte and Touché outsourcing research report**

With extensive experience with outsourcing projects around the world, Deloitte and Touché, deduced that trends are to bring business processes back in-house are on the increase (Internet 3).

These business processes were both core and non-core activities. This could imply that the company actually built internal core competencies from the supplier during the outsourcing process to achieve the same result internally at a lower cost. This study also revealed that 70 per cent of participating companies revealed significant negative experiences with outsourcing. The assessment report from these companies revealed that there was general disappointment with the lack of cost saving, hidden costs and amount of management they had to supply to ensure that the outsourcing project succeeds.

The Deloitte and Touché report, 2000 also found that 48 per cent of companies had no standard methodology to evaluate the business cases for outsourcing. Outsourcing is not the problem but rather it is the inability of a company to prepare and research, which causes outsourcing projects to fail. In contrast, research by the National Outsourcing Association found that when preparation for an outsourcing project is done well, then outsourcing could be a real success, 83 per cent of organisations reporting high satisfaction with outsourcing project had effectively executed planning before implementing the outsourcing business process.

### **2.11.1 The National Outsourcing Association advice for successful outsourcing** ( Source: Internet 3)

Outsource deals should be executed with an open mind and with all alternatives explored before making an outsourcing decision. Thorough research of strategic objectives is essential. The survey also found that hidden costs could be prevented if the right research was conducted before execution of outsourcing.

- **Find the right fit**

The client-supplier relationship is important to a successful outsourcing process. This relationship is defined by the nature of the contract and tenure thereof. The right supplier is important to an ongoing relationship and different suppliers will have a 'fit' with different companies. As in any relationship, everyone is different and each intense to achieve different objectives. The key is to find a supplier that has different objectives but assist one to achieve the same result from the outsourcing project.

- **Management is essential**

The Deloitte and Touché research report also indicated that 62 per cent of respondent companies indicated that outsourcing required more management than they expected. A company cannot outsource a business process without management thereof, as these processes are essential to achieving the company's strategy.

- **It is not just about cost cutting**

Cost should not be the only motivation behind outsourcing. The primary concern should be standard of service. Cost savings can be achieved but these should also be realistic.

- **Evaluation of the contract**

Clear objectives and targets by both client and supplier need to be clearly defined. Ways of measuring the completion of those targets need to be agreed upon to ensure that all contract expectations are known by both parties to prevent disputes over services rendered. If this is

not done, the lines become very blurred, with frustration and misunderstanding. Outsourced business process is often brought back in-house as a spontaneous reaction to poorly conducted outsourcing contracts. The benefits of outsourcing can be considerable if approached in a systematic way.

### **2.11.2 Linking outsourcing to Public Private Partnerships**

The issue of asset management and ownership became a major factor in outsourcing projects in the UK. Private Finance Initiative (PFI), commonly referred to as the Public-Private Partnership (PPP) in the UK, was used as an instrument by public sector organisations to finance infrastructure and assets that government would otherwise not be able to afford. This policy was developed and promoted by the UK Treasury Department. This is now being applied in South Africa since 1999. The PPP policy resulted in many “build, own and operate” (BOO) type contracts, adopted for prison management, particularly so for Fazakerley Prison near Liverpool and Brigand. South African has also adopted the PPP policy in major asset ownership projects like prisons, airports, roads and fleet management. The Northern and Eastern Cape government have utilised the public private partnership methodology to introduce fleet management efficiency in their provinces.

Public sector organisations remain accountable for public service they provide. Generally accountability and cost effectiveness within the organisation are improved through outsourcing (Deakin & Walsh, 1996, p. 42).

### **2.12 The Japanese “kieretsu model” applied to outsourcing**

Japanese production and supply chain management and continuous improvement techniques show that strategic alliances with external service providers add more value to the outsourcing project than arms length relationships used by western countries. (Cusumano & Takeishi, 1991; Dyer & Ouchi, 1993; Helper & Sako, 1995). The motive for outsourcing in Japan is primarily to improve the efficiency and quality of business processes (Quinn & Hilmer, 1994). Companies are constantly looking for more efficient ways to manage their operations and are therefore exploring alternatives to vertical integration models. These alternatives include innovative outsourced contracts of core and non-core activities, depending on the strategy of a company (Bensaou, 1999).

Outsourcing is a possible alternative to traditional business strategies that can break down the paradigm of doing traditional business processes internally rather than sourcing the best skills and specialisation to competitive advantage (Spitzer, 1999). Table 1.3 illustrates outsourcing characteristics that can be applied to the different business strategic models. These characteristics are

strategic drivers for outsourcing, the outsourcing market, the impact of outsourcing on organisational structure, the client/supplier relationship, information technology requirements, performance management methods and client satisfaction surveys.

### **2.13 Cost benefit analysis**

According to McIvor, 2000 cost analysis of the outsourcing decision is essential. It involves measuring all the important costs associated with alternatives mechanisms to perform an activity or function effectively. An activity can be performed internally or externally (outsourced). The cost benefit analysis will yield alternatives. Usually the alternative with the lowest total cost is often chosen as a feasible alternative to deliver business process effectively. A number of authors have developed mathematical analytical models for the make or buy decision (Mock & Miller, 1970; Raunik & Fisher, 1972; Yoon & Naadimuthu, 1994). Both quantifiable and non-quantifiable factors are used in the analyses. However, other authors such as Morley (1966) argue that cost calculations, in most outsourcing projects do not produce a clear marginal decision in either direction. Outsourcing based solely on a cost reduction decision will not support the long-term strategy of the company, as it only achieves short term cost reduction and profitability goals. Outsourcing is usually capital intensive and will fail if based on short-term cost reduction decisions.

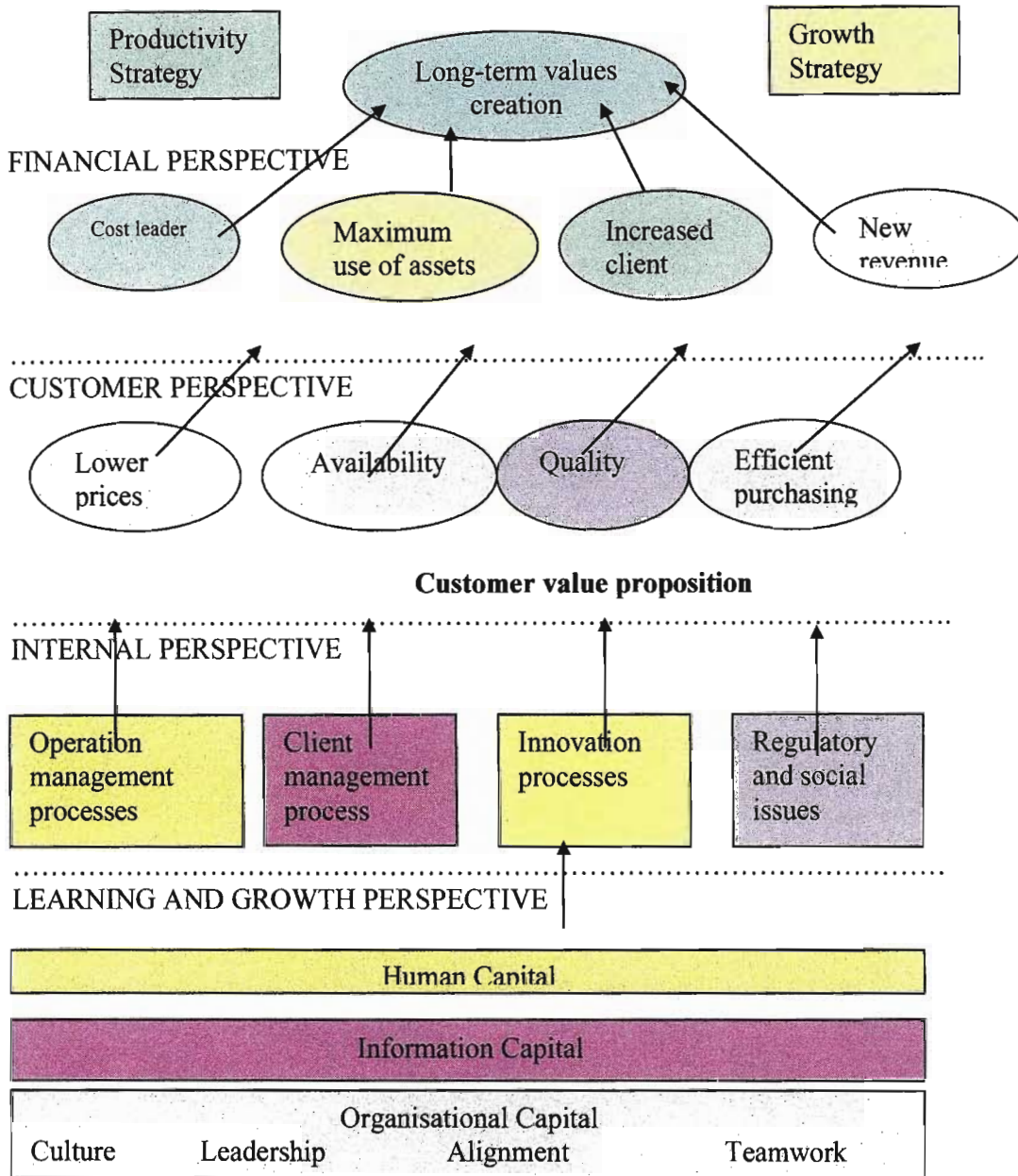
Qualitative factors, such as the long-term strategic implications for the company and the workforce reaction to outsourcing may have a greater impact on the decision. The problem with basing outsourcing decisions primarily on the basis of costs is further intensified by the fact that companies have inadequate costing systems. The results of cost benefit analysis based solely on the cost accounting practices and financial performance systems will not be accurate and will produce inaccurate recommendations (Davis, 1992). For example, direct labour hours in the manufacturing industry are still widely used as the result basis for allocating overheads, even while the production process is highly automated. A study of world class manufacturing practices by Giffi, 1993 found that the inability to report true variable product costs because of direct labour overhead allocation is a common shortcoming of many costing systems. This situation can cause a company to implement a strategy of possible over/under pricing products that are highly profitable.

### **2.14 Strategy Map**

According to Kaplan and Norton, 2004 the strategy map is a cause-effect relationship visual framework of the four perspectives for the balance scorecard. The strategy map will also illustrate how strategy links intangible assets to value creating processes. The balance scorecard will translate



the strategy map into measure and targets that will measure the value creating process in the organisation.



**Figure 4: Strategy Maps. Converting intangible assets into tangible assets. (Source: Kaplan & Norton, 2004).**

### 2.15. The balance scorecard concept

According to Kaplan and Norton, 1992, “If you can’t measure it, you can’t manage it.” The balance scorecard evolved to address the need for long-term strategic planning that could be measure for success. The process of creating a balance scorecard for a private or public company will be similar,



except a public company will not be measured on profit but rather on efficiency of services rendered. A company balance card process involves clarifying the vision and strategies and action plans. A carefully prepared Balanced Scorecard defines a company's strategy and translates strategy into performance measures.

The balance scorecard consists of four key perspectives, which are financial, customer satisfaction, internal processes, and learning and innovation. The financial perspective forms the traditional viewpoint of performance measurement in terms of a balance sheet, income statement and the bottom line. The three other perspectives focus on the management of intangible assets that measure the company's success in the long term.



**Figure 5: The balance scorecard framework describes how value will be created across four business perspectives. ( Source: Nagel & Rigatuso, 2003).**

- **Financial perspective**

Previously, finance was used to measure performance of a business. The balance sheet, income statement, Return on Capital Employed (ROCE) and Return on Investment (ROI) were important financial measures in a company. This resulted in management chasing short-term financial performance that limited investment in long-term growth opportunities. The result was short-term financial profitability.

The financial perspective is important as it indicates if a company is performing well at any point in time. Financial objectives differ during stages of a business life cycle. These objectives range from growth to (sustain) consolidation or (harvest) liquidation strategies. For each of these

financial strategies there are three financial themes that drive a company’s strategy. These are summarised as follows:

Business strategy	Strategic Theme		
	Revenue Growth And Mix	Cost reduction/ Productivity improvement	Asset utilisation
<b>Growth</b>	Sales and growth per market segment.	Revenue/employee	Investment and R&D a % of sales
<b>Sustain</b>	Share of key customer accounts.  Sales from new customers	Cost/competitors Cost reduction rates Indirect cost Measurement	Working capital ratios ROCE ROI
<b>Harvest</b>	Profitable customers and products and services	Unit cost	Payback period Throughput cost and revenues

**Table 2.3: Measuring strategic financial themes (Source: Kaplan & Norton, 1996)**

- **Customer Perspective**

The customer perspective identifies the customer and market segments in which the company chooses to compete. The core customer measures are satisfaction, loyalty, retention, acquisition, value drivers and profitability in terms table 2.4.

<b>Market share</b>	Proportion of business in a market segment measured in Rands, customers, and units of product or services sold.
<b>Customer acquisition</b>	Rate at which a business attract new customers.
<b>Customer retention</b>	The rate a business unit retains and maintains relationships with customers.
<b>Customer satisfaction</b>	Check customer satisfaction in terms of a set of performance criteria that delivers a certain value proposition.
<b>Customer profitability</b>	Measure the net profit of a customer after cost consideration to maintain that customer.

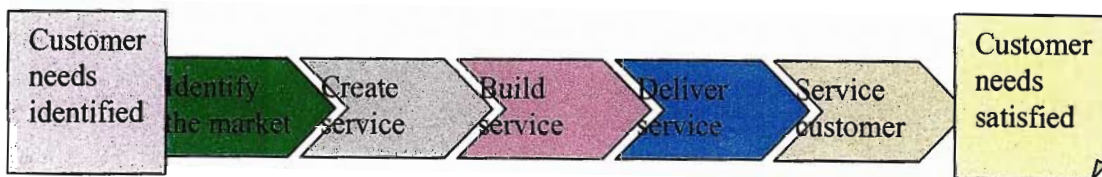
**Table 2.4: The customer perspective measure (Source: Kaplan & Norton, 1996)**

- **Internal business process perspective**

Critical business process is identified and measures to achieve the client and shareholder objectives. The balance scorecard methodology recommended that a company should define a complete internal business process value chain. The value chain process includes innovation, development of new solutions, products and customers.

The internal business process perspective is the distinction between the balance scorecard and traditional performance management systems that relied on financial measurements. Companies today are using new methods like the balance score card to improve quality, reduce cycle times, increase yields, maximise through put and lower costs of their business processes.

Each company has set of business processes to create a value for customers and good financial results. The value chain model in Figure 6 provides a template to analyse the measures of a company's internal business processes:



**Figure 6: The internal business process perspective- value chain model. (Source: Kaplan, & Norton, 1996)**

### **Learning and Growth Perspective**

This perspective of the balance scorecard measures the drive of an organisation to learn and grow that provides valuable infrastructure and resource to achieve the other perspectives of a balance score card. Infrastructure includes people, systems, and procedures. The following are the principle categories for learning and growth:

- employee capabilities;
- information systems; and
- motivation, empowerment and alignment.

Learning and growth of an organisation can be measured in terms of the following core outcomes:

- **employee satisfaction-** precondition for productivity, responsiveness, quality and service;
- **employee retention-** long-term employees are loyal, carry values and knowledge; and
- **employee productivity-** revenue per employee measure productivity.

Strategies for high performance organisation require investment in **people**, systems, and business processes that build an organisation's capabilities. The key employee based measures are; satisfaction, productivity, and retention.

### 2.15.1 The balance scorecard adapted to fleet business outsourcing in Government

The balance scorecard was originally based on private sector profit generating companies. However, according to Niven, 2003 the balance scorecard can also be successfully applied to non-profit and public sector companies.

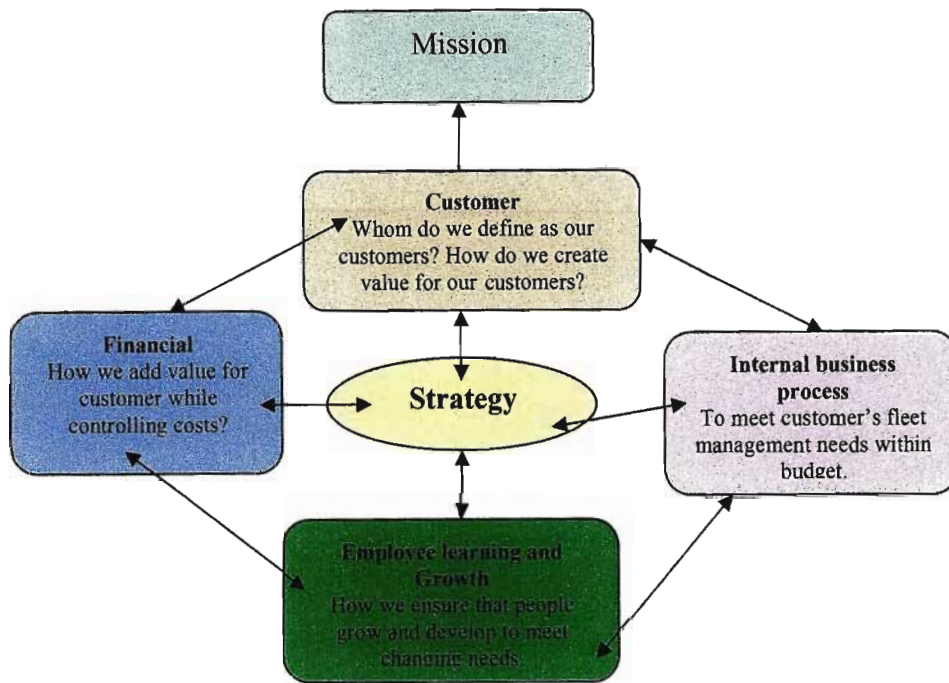
A good example of the application of a performance-based system in government was introduced during the Clinton administration in 1993. Al Gore had championed a performance-based system through a concept of creating a better government that costs less.

On a similar vain, the balance scorecard can be applied to fleet management which is a key business process within the South African Government. According to Niven, 2003, the performance measures are:

- **financial accountability** - detail of expenditure control for core government services rendered;
- **programme products or outputs** - measuring the number of product and services rendered to a number of people;
- **adherence to standards of quality in service delivery** - Service delivery practices by regional and national government institutions;
- **key performance indicators** - often refereed to as "KPIs" which measure all areas of service delivery; and
- **client satisfaction** - Customer satisfaction is measured to determine key government objectives: timeliness of service, accessibility, and overall customer satisfaction.



The balance scorecard is adapted to achieve performance management in government. The balance scorecard model shown in Figure 7 can be applied to the public sector company:



**Figure 7: Balance scorecard for a public sector company. (Source: Niven, 2003)**

Since the change of the South African government policy in 1994, there was widespread debate on the need for reform of the public sector. The South African Government itself was uncomfortable with the structures and practices it inherited. Despite these efforts, however, critical structural issues have not yet been clearly enough isolated to allow for the formulation of a set of central policy principles to guide the process of reform as a whole, and to ensure its consistent application across the entire structure of Government ([www.anc.org.za](http://www.anc.org.za)).

The major problem which is evident is the following: discussion and action to reform the public sector has to date been focussed predominantly on promoting performance driven public sector, improving accountability and down-sizing/right-sizing the bureaucracy. The fundamental question for Government is: 'What activities does government currently involve itself in, and are these activities properly attuned to the achievement of the strategic objectives it has set for itself?'

The South African government is now seriously trying to tackle this question on performance. For the first time ever, government has developed comprehensive policies and business plans with general performance indicators and individual performance measures for each public servant. These are important steps along the road to professionalism in the service delivery. (Source: Corporate Plan Framework, National Treasury. September 2002)

The balance scorecard can be applied to implementing meaningful public sector reform. The challenge for government at central level is to set out the general policy principles, which will enable all departments to approach the problems of structural reform in a consistent and co-ordinated way. The results could be dramatic for the country and its people.

## **2.16 The relationship between the literature and the problem statement**

Initial analysis for the development of the outsourcing framework involved a thorough review of the literature on outsourcing and supply chain management. The models and theories will be applied in Chapter 5 to determine whether fleet management should be outsourced in the public sector.

Transport efficiency is important to government as economic development and transportation are closely linked. Economic development stimulates transportation demand by increasing the number of workers commuting to and from work, customers travelling to and from service areas, and products being shipped between producers and consumers. Additional demand can then trigger the need for transportation improvements. Improvements by government in efficiency decreases transportation costs for all and stimulate further economic development.

According to the Medium Term Expenditure Framework (Source: National Treasury, South African Government.2004), the total annual budget of the National Department of Transport was R7.6 billion. According to statistics with the Fleet Report, 2005, the expenditure by government on the above fleets represents approximately 53% of the National Department of Transport's budget (Source: Department of Transport. 2005). According to the National Transport Information system (NATIS), the total population of vehicles in South Africa was 7 535 857 vehicles as at 31 December 2004. The government fleet size analysed above represents just over 1% of the total population of vehicles in South Africa. According to a fleet management industry report presented by Stannic.2004, the Transport sector represents 11% of the South African economy. Fleet Management represents 4% of the Transport Sector (i.e. 0.44% of the South African economy).

## 2.17 Conclusion

Chapter 2 focused on the balance scorecard model, outsourcing and fleet management theories to obtain solutions and strategies to answer the fleet management problem. These models and theories will be applied in chapter 5 appropriately to the public sector fleet management problem statement highlighted in chapter 1 in an effort to determine a management approach to an efficient allocation of fleet resources. These theories and models will be adapted in chapter 5 to the public sector to determine the correct fleet performance measures in a non-profit environment.

Chapter 2 also defines outsourcing and provides reasons, risks, management models, issues and contrasting views of outsourcing. Outsourcing is associated with both core and non-core activities. In the application of this study, outsourcing of non-core activities establishes relevance to the fleet management problem statement defined in chapter 1 since fleet management is a non-core activity in the public sector. The public sector is accountable for service delivery of public goods and services. As suggested by Deakin & Walsh, 1996, the accountability for service delivery and cost effectiveness can be improved by outsourcing therefore these theories and models were deemed appropriate to the study of fleet management in the public sector.

It can be concluded based on the literature survey that transport is a cost to government, which implies that effective control thereof will result in the optimal utilisation of scarce financial resources. If resources are allocated efficiently, the savings generated from the fleet budget can be reallocated to delivery of essential services like housing and education. It is evident from the above analysis that the fleet budget is significant and the effective management thereof will translate into service delivery in government that can ultimately stimulate the economy.

Chapter 3 analyses and details a fleet management case study in the public sector. The case study provides a historical perspective on why fleet business is important in the public sector, investigates key role players and how they conduct business. Government fleet business will also be presented in detail in terms of how fleet business is conducted within the ambit of current rules and practice.

## Chapter 3

### 3.1 Introduction

Chapter 2 detailed theories and models on business process outsourcing, outsourcing, fleet management, value chain, supply chain and balance scorecard. These theories and models will be applied in chapter 4 to analyse fleet management in the public sector.

The case studies in this chapter will provide a basis to explain fleet business in government. This case study will provide a historical perspective and the importance of fleet management in the public sector with emphasis on key role players, the way they conduct business and how fleet business in government is conducted within the current enabling environment.

### 3.2 A fleet management perspective in South Africa

Fleet management evolved through the emergence of fleet companies in the late 1960's that was geared toward providing car and truck rental to private companies. Transport and banking companies developed full maintenance lease and financing of vehicle products in the 1960's. Western Credit (Pty) Ltd and Colonial Banking & Trusts amalgamated in 1960's and created a new product called " **finance leasing** " (Stannic,2003). To date, fleet management companies have grown into a number of companies specialising in fleet management products and services. The fleet management industry in South Africa is a sub-sector of the larger automotive sector. Business profiles of the key role players in the fleet management sector are attached at **Annexure 2** (Fleet survey: South African Vehicle Rental and Leasing Association [SAVRALA], 2003). The main key role players in the fleet management sector today are:

- National, Provincial and Local Government
- Government parastatals
- Avis;
- ABSA vehicle and fleet finance;
- Nedfleet;
- Contract fleet management;
- Lease plan
- McCarthy fleet services
- Wesbank First Auto;
- Stannic fleet services;



- Viamax
- Debis Fleet Management;
- Imperial Holdings;
- Unitrans;
- Barloworld;
- Super Group (Fleet Africa);
- Bidvest; and
- Value Group.

In the public sector fleet management was internally managed until April 1995 when a contract for a card-based system for the provision of fuel, oil, tolls, repairs and maintenance to government vehicles was partially outsourced to Wesbank First Auto (Wesbank, 1995). Repairs and maintenance administration was outsourced to the private sector however, government maintained ownership of the vehicles and capital cost risks. The outsourced service provider offered the following services to government (State Contract RT46SP):

- an effective system for the procurement of and payments for fuel, oil, toll, maintenance and repair transactions for government vehicles;
- a managed maintenance facility to administer repairs and maintenance to vehicles through a database of approved merchants and teams of technicians; and
- an accurate and accessible vehicle statistics and operating costs.

**3.2.1 The fleet management companies conduct business in the form of one or a variation the following fleet products and services:**

<b>Product and services</b>	<b>Fleet Company</b>
Instalment sale	Contract fleet management, Leaseplan, Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Operating rental	Contract fleet management, Leaseplan, Fleet Africa, debis, Bidvest, Barloworld, Value Group and Unitrans.
Full maintenance leasing	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis
Asset finance	Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Management maintenance	Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Sale and lease back	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis
Fleet accident management	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis
Fuel and toll administration	Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Fleet call centers	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis
Vehicle purchasing	McCarthy fleet Services, Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Car allowance schemes	Stannic, Absa , Asset & Vehicle Finance, Nedfleet and Wesbank
Vehicle sale and disposal	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis
Vehicle Information Technology	Contract fleet management, Leaseplan, Imperial Fleet Services, Avis, Viamax, Fleet Africa and debis

**Table 3.1 Fleet management product and services ( Source: Stannic, 2003)**

### 3.2.2 Fleet management product definition

Product and services	Product Definition
Installment sale	Sale of an asset in exchange for a specified series of payments.
Operating rental	Rental agreements offer the usage of an asset over a determined period for a specified usage at a predetermined monthly amount.
Full maintenance leasing	This is a comprehensive service encompassing vehicles which are funded and maintained via a fixed monthly rental. Its intent is to combine a fixed price maintenance contract with the financing cost of the vehicle. Vehicles are selected and purchased on the client's behalf and delivered directly to the client. Risk transfer options differ from contract to contract between fleet company to customer, however there are financial benefits to customers if the contract can be structured correctly.
Asset finance	Using balance sheet assets to obtain a loan or borrow money and the borrower provides a security interest in the asset to the lender.
Management maintenance	This product has been designed to assist a customer pay only the actual costs incurred in the upkeep of an existing or new fleet. Actual Maintenance costs are captured and charged at the end of every month, after verifying maintenance work against costs.
Sale and lease back	An option that allows a fleet management company to purchase a customer's existing fleet and lease it back to the client. There are benefits in this option relating to a cleaner balance sheet, improved liquidity and transfer of ownership risk.
Fleet accident management	Usually sold as an allied product to higher value products. In this service offering, fleet management companies take over the responsibility of complete accident administration management after an accident, at a monthly premium.
Fuel and toll administration	A bank or fleet company provides administrative services for the use of fuel and toll payment services in terms of the Usury Act, 1968.
Fleet call centers	After sales services offered to clients for administration and routing of vehicles for maintenance, accident repair and emergency breakdown services.

Vehicle purchasing	A bank or fleet company will offer convenience and access to vehicles at discounted prices through a network of suppliers affiliated to that company.
Car allowance schemes	A product or service offered that tailors asset finance to the car allowance scheme of the individual or client.
Vehicle sale and disposal	At the end of the life span or at sale of a vehicle, the fleet company will offer the client the option to sell the vehicle of the client's behalf at a reasonable market price.
Vehicle Information Technology	An electronic fuel management system that offers re-fueling of vehicles at retail fuel stations without a fuel card. Examples of product are fuel master via BP and E-fuel via other fuel companies.

**Table 3.2 Fleet management product definition ( Source: Stannic, 2003)**

### **3.3 Fleet management in the public sector**

According to Dolce, 1998 a fleet management company of today is an organisation that designs, develops, markets, distributes and / or manages aspects of vehicle / fleet asset operation and performance for financial gain. For the customer, the output-driven specification must mean cost and operational efficiency gains, receiving value for money and transfer of selected risk ( adapted from Osborne & Gaebler, 1992). Fleet management has become synonymous with the customization of flexible mobility solutions by a service provider in tailor-made designs, according to a client's exact need (Stannic fleet report, 2003). Fleet management is not just about costs; it is having access to data for decision-making (DiRomualdo and Gurbaxani, 1998). This leads to better asset management which generates cost savings and is therefore important to the public sector.

#### **3.3.1 Benchmarking fleet management in the public sector**

Benchmarking fleet management in the public sector will provide a status quo and illustrates how government conducts fleet management. The benchmarking exercise was conducted at the provincial Department of Transport, KwaZulu-Natal (KZN) to determine fleet operational efficiency, value for money and risk management (Deloitte and Touché, 2005).

The results of the fleet management benchmarking report revealed the following (Deloitte and Touché, 2005):

- fleet operating costs for 2004/05 financial year was R 117 million, compared to the actual budget of R 68 million. The province was spending 72% more on fleet operations than actual budget.
- The following table summarises a fleet operational cost comparison to illustrate cost of inefficiency of fleet management in a public sector organisation.

Fleet	Fleet size	Total cost	Cost/unit		Variance to KZN fleet
	Units	Rand/annum	Rand/annum	Rand/month	%
Fleet A	4329	30 Million	6993	583	208%
Fleet B	7434	57 Million	7765	647	187%
KZN Fleet	8064	117 Million	14558	1213	

**Table 3.3 Cost comparison of fleet operating costs (Source: Wesbank First Auto, 2005)**

- For comparative purposes, the following table illustrates a selection of fleet operational costs of privately managed vehicles:

Vehicle type	Rand per month
Toyota Corolla 1.3 i	399
Audi A4 1.8 i	513
V W Caravelle 2.8 i	638
<b>Government vehicle</b>	<b>1213</b>

**Table 3.4 Average fixed maintenance leasing cost on a 48 month and 150 000km basis ( Source: Avis Fleet Management Services, 2005)**

The analysis of operational cost as depicted in table 3.3 and 3.4 illustrates the cost of inefficiency of fleet management in a public organisation in comparison to the private company provision of the same fleet service.

The following case studies also illustrate fleet management conduct in government within the current enabling environment. Fleet management is not governed by a standard set of rules but by



procurement regulations (Public Finance Management Act, 1999). Furthermore, these case studies will provide insight into the implications of an inefficient fleet management model on service delivery of public goods and services in terms of accessibility, reliability and availability of the government fleet.

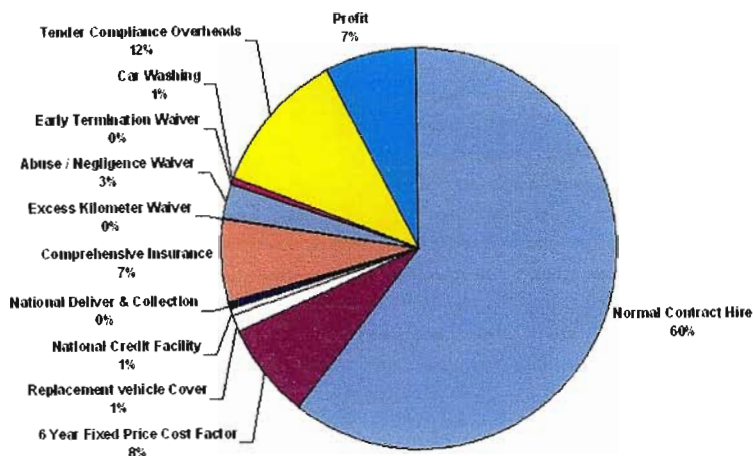
### 3.3.2 Case Study: National Outsourcing Project

A national outsourcing project was initiated in 1996, by the Department of Transport, to analyse the fleet management problem and to explore opportunities for initiating change management strategies to achieve cost-effective fleet management.

A cost benefit analysis was conducted to determine a cost effective fleet model for national government (Department of Transport, 1996). The cost benefit analysis indicated that the outsourced fleet model was the best option for government at the time presenting a potential cost saving of 15-20% and increase in the fleet services provision from 40% to 98%. As a result of a detailed cost benefit analysis, a full-outsourced contract was awarded to Imperial Fleet Services (IFS), on the 10<sup>th</sup> of June 1997 which expired on 31 May 2005 (National Treasury, State Tender Board, 2005). According to current tender rules (National Treasury, State Tender Board Regulations), contracts do not require a committed budget allocation. Therefore, in an absence of a committed budget to the project, this contract was issued on an all risk transfer basis that became too expensive for government, although fleet cost reduced by 15-20%. The reason for the perceived higher cost of the outsourced fleet service is due to departments under budgeting for fleet costs as government garages carried the total fleet costs. The result was a provision of fleet management services with too much risk transfer that was not aligned to the state's budget allocation.

Imperial Fleet Services and the government entered into the contract with the following guiding principles ( National Treasury, State Contract RTG718SP, 1999):

- open book keeping;
- profit sharing;
- all risk transfer to the private sector;
- penalties / incentive approach to ensure quality service delivery from Imperial Fleet Services and improved planning from the national departments;
- exclusive use of transport services from Imperial Fleet Services; and
- rates are fixed for the six-year contractual period and are only subject to CPI changes on a year-to-year basis.



**Figure 8: Cost breakdown of a vehicle rental ( Source: National Treasury, State Contract RTG718SP, 1999)**

State contract RTG718SP was signed and entered into by 4 national user departments, namely, Transport, Labour, Health and Water Affairs and Forestry. Since inception the departments of Public Prosecutions, Public Works and Trade and Industry elected to utilise the contract (National Treasury, State Contract RTG718SP, 1999).

According to the Department of Transport, 2005 since Imperial Fleet Services took over of the government fleet, there has been a significant amount of rationalisation of the fleet. The permanently allocated fleet had dropped from an estimated 3000 vehicles to 2300 through 100% up time of the fleet hired, as well as through a good mix between short and long-term vehicles. Within the first year in excess of 1000 ex-government vehicles were sold and new vehicles purchased. Since then, Imperial Fleet Services had 3 re-fleet projects. During the first re-fleet project 995 new vehicles were purchased and replaced (March – July 2002). The second re-fleet project (total of 300 vehicles) was completed from November 2002 – Jan 2003, and the third started in April 2003 in which 651 vehicles were identified to be replaced across the country. The purpose of the re-fleet projects was to ensure that all vehicles with mileage higher than 100 000 kilometres and/or older than 15 months were replaced to optimise fleet resource allocation.

According to the Department of Transport, 2005 the initial estimate of the cost of the fleet was taken over by Imperial Fleet Services was set at R80 million. Imperial Fleet Services, as consideration for the government fleet, deposited a lump sum of R80 million with Imperial Bank. The original

estimated amount was reduced to R 61,472,698.00, due to the inaccuracies in the State's asset register.

### **3.4 Synopsis of fleet management case studies in the public sector**

#### **3.4.1 Northern Cape Provincial Government fleet management case study**

Historically fleet operations of the Northern Cape consisted of vehicle maintenance and repair facility, a long-term vehicle leasing operation and a short-term vehicle rental operation (Northern Cape, Department of Transport, 2000) . All three operations are managed by the Northern Cape Department of Transport and are commonly known as the "Government Garage". The Government Garage occupies premises of approximately 1.6 hectares in Kimberley and presently employs 32 staff.

A Deloitte and Touché fleet feasibility report, 2000 detailed calculations and underlying assumptions for the five-year projected cost reflect that the total cash cost over five years is R238 million, with a net present value of R182 million. Based on the replacement criteria desired by user departments (replacement after four years or 110 000 kilometres) the number of vehicles requiring immediate replacement is approximately 623, or almost 63% of the vehicle fleet. The Northern Cape Department of Transport did not have the required capital for capital replacement of the fleet (Department of Transport, Northern Cape, 2000).

The Deloitte and Touché fleet feasibility report, 2000 indicated that 39% of vehicles were travelling less than 1000 kilometres per month and therefore under-utilised. Approximately 28% of the vehicle fleet had travelled more than 100 000 kilometres and, 63% of the fleet required replacement. As a result of the Deloitte and Touché fleet feasibility report, the Northern Cape Department of Transport, Roads and Public Works initiated a project to establish an outsourcing arrangement for the provision of the provincial government's vehicle fleet and garage operations by 1 November 2001. The outsourcing option was the preferred option for fleet services in the province.

With the implementation of the outsourcing process, the Northern Cape Provincial Government was able to achieve higher outputs of fleet provision for essential government needs. Northern Cape achieved the disposal of 993 vehicles and is currently utilising approximately 400 vehicles to serve the same government needs (Department of Transport, Northern Cape, 2000).



### 3.4.2 Eastern Cape fleet management case study

The Department of Transport Eastern Cape initiated feasibility into an efficient fleet management service provision for the province having recognised that fleet services in the province had declined (Department of Transport, Eastern Cape, 2003).

According to a cost benefit analysis conducted by the Eastern Cape Provincial Government, there are various approaches to establishing an objective cost comparison but the Life Cycle Cost (LCC) / Net Present Value (NPV) complies with Generally Accepted Accounting Principles (GAAP) and is the most widely accepted approach. Based on the LCC/NPV approach, it is concluded that the NPV cost to government for the contract period if the status quo was maintained is R 610 652 799.00. The NPV cost to government over the same period, if Eastern Cape Provincial Government outsourced the fleet, then the contract cost was R 448 156 856.00. It was estimated that an NPV saving of R 162 495 943.00 can be achieved over the remaining 4-year contract period. A key factor in the overall achievement of the above savings rested with the fact that the fleet size must reduce from 3847 units to 2700 units (Department of Transport, Eastern Cape, 2003).

According to the Department of Transport, Eastern Cape (2003), risk transfer was negotiated under very favourable conditions for the state and received a R137m cash injection with a R163m savings over 4 (four) years. Economies of scale were achieved by sharing in a fleet base of the outsourced partner. State of the art systems are presently in place and accessible to user via online Internet access.

It can be concluded from the analysis of costs of the Eastern Cape fleet outsourcing contract, illustrated in Figure 18 that the cost benefit of the fleet outsourcing contract had culminated in a R45 million saving in the first year with substantial efficiency gains.

### 3.4.3 City of Johannesburg fleet management case study

According to Fleet Africa (2001), a fleet contract to supply and maintain the vehicles used by various entities within the City of Johannesburg was awarded in February 2001. The city was motivated by a need for an effective, efficient and well maintained fleet to ensure effective service delivery to the people of Johannesburg which resulted in the outsourcing of the city's vehicle fleet (City of Johannesburg, 2001).

According to City of Johannesburg, 2001, Fleet Africa took over all aspects of the management of City of Johannesburg 6 000 strong fleet which was reduced to a more efficient 3 300 vehicles, from vehicle procurement and disposal to fines, maintenance, fuel, and accident management. The company also took over the staff and workshops. Vehicle types outsourced ranged from waste compactors to fire engines and police vehicles, each with different maintenance requirements and age profiles (Fleet Africa, 2001). When Fleet Africa took over Johannesburg's emergency services fleet, the service had become efficient and vehicles were supplied to various city departments and utilities (City of Johannesburg, 2001).

According to the City of Johannesburg, 2002 savings of up to 35% was realised in the first year after outsourcing. It was initially estimated that the contract would cost the city R480-million per annum (City of Johannesburg, 2003). The actual cost in the first two years of the contract dropped to R316-million in 2001/2, and to R347-million in 2002 to 2003, a massive saving of over R130-million per annum, as recently confirmed in a report by the city management unit (City of Johannesburg, 2003).

The city has also saved substantially on insurance premiums. In 2002, the insurance premiums were calculated at 8, 15 % of the capital value of vehicles. The insurance rate decreased to 7, 29%, which indicated efficiency and cost saving gains as suggested by the literature survey (City of Johannesburg, 2002). The availability of vehicles increased remarkably from less than 40% before the outsourcing of the contract to the current 97% availability (City of Johannesburg, 2002). This is despite the actual number of vehicles in operation being reduced from a base of 5992, before the contract, to the current 3737 (City of Johannesburg, 2002).

The increased availability of vehicles resulted in improved efficiency of the management of the fleet by the city. The outsourcing of the City of Johannesburg's fleet of vehicles ensured that the city vehicles are more roadworthy and readily available, whilst saving the city millions of Rands, 372 million Rand in comparison to the city's budget (City of Johannesburg, 2003).

### 3.5 Conclusion

Chapter 3 depicts a brief fleet management perspective in South Africa. A historical synopsis is given on the development of fleet management companies, products and services to define conduct in the fleet management operating environment. The case studies in the public sector also provided a historical perspective and status on fleet business in the public sector.

According to McIvor, 2000 measuring costs is important in establishing fleet management efficiency. Usually the alternative with the lowest total cost is often chosen as a feasible alternative to deliver business process effectively. Therefore, chapter 3 focused on analysing fleet business through case studies and benchmarking to determine if cost efficiency in fleet management. Based on the analysis in chapter 3, it can be concluded that measuring costs is important in establishing fleet management efficiency in order to address the problem statement established in chapter 1.

Chapter 4 will focus on the approach to the research design and methodology. In an effort to address the problem statement - **Should fleet management be outsourced in the Public Sector**, an empirical investigation will be performed using a questionnaire that will be triangulated with a cost benefit analysis and pattern matching of fleet management and outsourcing concepts established in chapter 2.

## Chapter 4

### 4.1 Introduction

Chapter 3 presented a fleet management perspective in South Africa. Key role players in the fleet management sector was identified and briefly profiled in Annexure 2. Fleet management products and services were defined and allocated to fleet companies in terms of services they render. Case studies on fleet management options were briefly discussed to establish the way government conducts fleet business in an effort to address the problem statement established in chapter 1.

Chapter 4 will discuss the approach to the research design and methodology to address the research topic and problem statement - **Should fleet management be outsourced in the Public Sector**. The research methodology will address the research problem through an empirical investigation using a questionnaire that will be triangulated with a cost benefit analysis and pattern matching of fleet management and outsourcing concepts established in chapter 2. The research approach will address the objective of the study, define the research procedure, review research imperfections, analyse the data and draw conclusions and recommendations in chapter 6 from the evaluation of the data in chapter 5.

### 4.2 Rationale for the research methodology and design

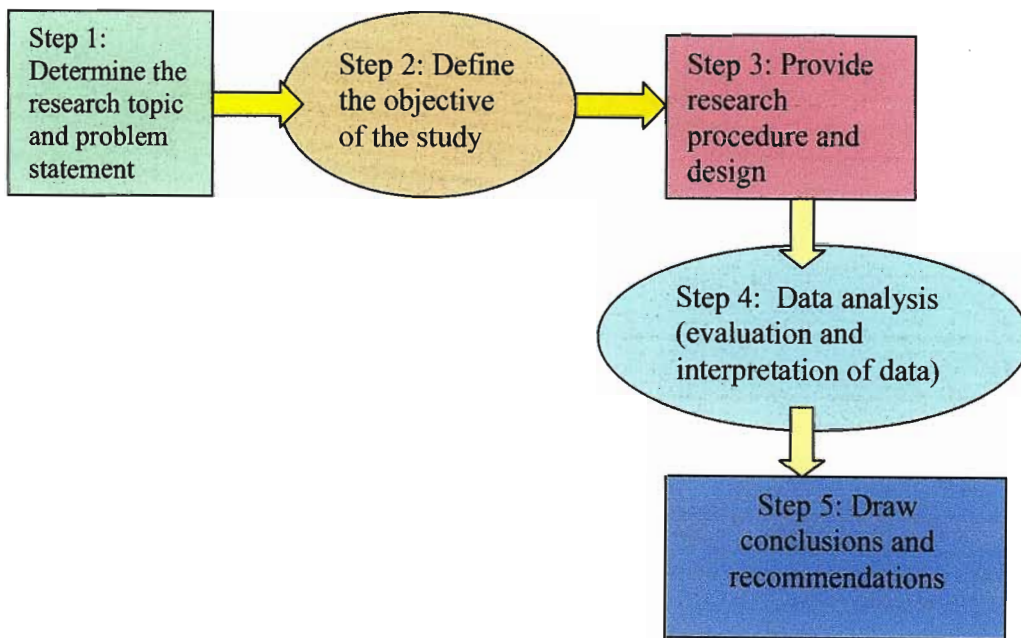
The qualitative research method was selected to generate a fleet management strategic model for the public sector. This method of study was selected as nature of the study is unstructured exploratory research that is based on a sample population which intends to yield an understanding of the problem setting (Sanders, Lewis and Thornhill, 2003). The case study research method was applied to this study as the best approach to analyse actual situations or real life events (Sanders, Lewis and Thornhill, 2003). The case study method also investigates realistic and meaningful actual events (Leedy and Omrod, 2005). This study intends to analyse and identify solutions to the fleet management problem by identifying strategic gaps using the cost benefit analysis approach and qualitative research methods that cannot be statistically calculated nor tested through a hypothesis statement. Leedy and Omrod, 2005 justifies the qualitative research method approach as the fleet management problem is unknown. A strategic model will be adopted to evaluate the gaps between the theory and the application. This qualitative research method is deemed appropriate to evaluate the fleet management strategy and associated problem (Leedy and Omrod, 2005).

In the case study research approach in comparison to other research approaches, data collected from various sources provides a holistic picture of the problem (Leedy and Omrod, 2005) as confirmed by Yin, 1993.

The research design is inductive as the fleet management problem involves human interaction and it provides a better understanding of the research problem. Data collected through a semi-structured questionnaire on this research problem is qualitative and cannot be scientifically analysed.

### 4.3 Research Methodology

The following research methodology framework depicts the research process graphically:



**Figure 9: Research methodology framework (Source: Sanders, Lewis and Thornhill, 2003)**

The purpose of the study was to provide qualitative information on fleet management relevant in the public sector. The information was researched in a systematic process of planning and execution and was conducted by following the following basic steps:

#### 4.3.1 Definition of the objective of the study

The research topic and problem statement was formulated based on shortcomings in the fleet management that was identified in national government. After the topic and problem statement was selected for the study, the overall fleet management situation in South African was explored through

a historical overview and a review of case studies of similar fleet management problems in the public sector.

The objectives of the study was defined in paragraph 4 of chapter 1 of the study is to analyse fleet management and to address the research problem of fleet management in national government through the development of a strategic management solution for the research problem in chapter 6. The objective of the study includes research into the local fleet management industry, its key role players and fleet products and services. The research was then broadened to explore literature on outsourcing and fleet management models.

### **4.3.2 The research procedure and design**

#### **4.3.2.1 Sampling and survey instrument**

In development off the sample, the sampling frame for the probability sample was the entire public sector that consists of 9 provinces, 33 national departments, approximately 284 municipalities and 300 parastatals such as Telkom, Eskom and Transnet. To determine the impact of outsourcing in the public sector, a sample of 33 national departments was selected to conduct the study. The 33 national departments are representative of the total population. A case study research design was used, therefore a random sample cannot be statistically chosen. Non-probability sampling was used as the case study is based on a survey of fleet management in the public sector. Convenience sampling technique was applied to determine the sample size based on the ease of obtaining the responses from the national departments located in a close proximity to each other. This sampling technique was utilised, as it was dependant on the feasibility and sensibility of collecting data to answer the research question and aimed to address the objective of the entire population if applied to the entire population.

The questionnaires were emailed to the total of 33 transport officials from 33 national departments. A total of 28 usable questionnaires were received and used in the analysis. After the elimination of the unusable questionnaires (address unknown or incomplete questionnaires), a response rate of 84.8 per cent was achieved. No follow-up was necessary, as the number of responses (N =28) was considered satisfactory and representative of the population strata. The sample error rate is 15 per cent.

A multiple research method was applied by triangulating the cost benefit analysis, literature study in Chapter 2, the qualitative semi-structured questionnaire (**Annexure 1**).

A literature study of fleet management in Chapter 2 was necessary to identify the key concepts of fleet management, outsourcing, and supply chain management and balance scorecard in the development of the survey instrument.

The survey instruments comprised of semi structured questionnaires that was emailed to the sample population. Questions contained in the survey were set up to answer the research problem and to establish fleet management requirements in government. The information will be utilised to develop a standardised fleet management model for the public sector in chapter 6. Annexure 1 details the questionnaire submitted via the email system to the sample population.

#### **4.3.2.2 Design and Analytic Techniques**

The research concentrates on fleet management in the public sector. There is no control group and all variables were measured at the same time by means of a questionnaire, although data will be verified against data from external service providers of government. An exploratory case research is recommended (Clarke, 2001) by several authors as essential for understanding the elements contributing to a competent workforce. The study involves an area that had not been empirically well understood in business organisations, a case research would therefore be a most useful approach enabling researchers to develop frameworks and models than can later be tested and validated (or refuted) using more quantitative research methodologies (Clarke, 2001).

#### **4.3.2.3 Data collection plans**

A qualitative data collection approach was followed. Secondary and primary data sources were consulted to undertake the study. The collecting of primary data on fleet management was undertaken by means of a semi-structured questionnaire. Respondents completed questionnaires accompanied with a covering letter via the email system.

##### **4.3.2.3.1 Information sources**

The following information four instruments were used to gather information:

##### **a. Secondary sources**

The literature sources that were consulted are listed in the bibliography:

- Government reports on fleet management, by key government departments, provided the base and the framework for the formulation of the research topic.

- Textbooks by relevant authors provided the academic and strategic models that can be best applied to the development of an appropriate fleet management model for the public sector.
- Academic journals were consulted for insight into outsourcing and strategic management models that will be applied to the fleet management model.
- On line information via the internet was explored to gain insight into outsourcing and balance score card models.

#### **b. Primary sources**

Both primary and secondary information were used in the research process. Primary information was gathered through an email questionnaire (Annexure 1) and was sent to the population sample of 33 national departments to represent the public sector. Within the sample population, 28 complete responses were received from the national departments and formed the basis of the primary data source. The 5 incomplete questionnaires were regarded as the sample error and was not utilised in the data analysis phase of the study.

The questionnaire was completed by fleet managers of national departments. The questionnaire was designed to provide key information to perform a cost benefit and strategic analysis of the data. According to the literature review in chapter 2 and McIvor, 2000 cost analysis of the outsourcing decision is essential as it involves measuring all the important costs associated with alternatives mechanisms to perform an activity or function effectively. The cost benefit analysis will yield alternatives required to develop an effective fleet management model for the public sector. Usually the alternative with the lowest total cost is often chosen as a feasible alternative to deliver the fleet management process effectively. Both quantifiable and non-quantifiable factors are used in the questionnaire to derive key information to perform a cost benefit analysis.

The questionnaire was designed to yield the following key information to perform a cost benefit analysis in chapter 5:

- Type of vehicles and their application in a department. According to fleet management principles identified in chapter 2, types and application of vehicles are relevant to the cost effective use of the vehicle.
- Geographic locations of vehicles are essential to determine fleet requirements and requirement of availability vehicles in a particular area as the level of cost of vehicle availability is an important variable in the cost benefit analysis. Vehicle availability influences fleet operational costing and vehicle scheduling requirements (Dolce, 1998).



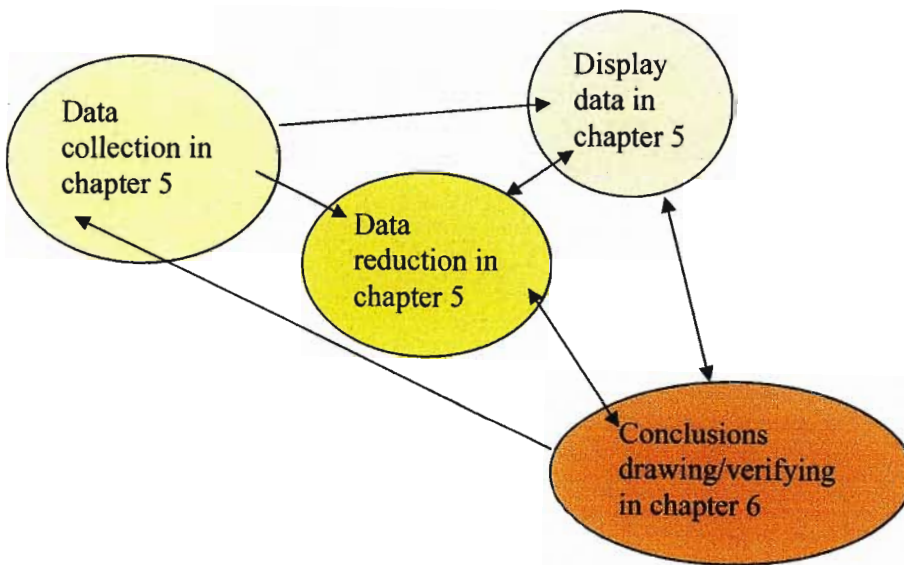
- Total size of fleet, kilometres travelled and type of vehicles currently utilised will be a good indicator of fleet requirements to suit functional application of a department. The fleet size by vehicle type will be evaluated in the cost benefit analysis in chapter 5 to determine overall cost and affordability of the fleet management model for national government.
- The method of procurement, disposal and replacement of vehicles provided data to determine the current efficiency of the vehicle value chain, level of access to vehicles, reliability and cost management of vehicle operations (Dolce, 1998). The data is relevant in the data analysis alternative fleet models as acquisition, replacement based on economic life span and disposal of vehicles are key fleet management principles in the overall fleet management model (Dolce, 1998).
- According to Dolce, 1998 internal operations and control, fuel, maintenance, insurance, accident management and toll fee administration are contributing variables that determine the cost efficiency of fleet operation in a government department. In terms of the outsourcing literature in chapter 2, the cost of fleet operations in government will be compared, in chapter 5 to fleet operations in the private sector to determine the cost benefit of an outsourcing fleet model is viable for the public sector.
- Availability, reliability of vehicles (Dolce, 1998) through maintenance down time and age of vehicles are determined to evaluate the economic cost of a vehicle and the impact on operations of core activities in a department.
- Fleet management information availability, reliability and integrity are tested via key question of information sources and methods. The questions are formulated to determine how fleet management is managed to measure the levels of relevance and efficiency thereof.
- The levels of fleet management skill and experience was determined to evaluate the core competence available and required to manage fleet in government.
- Total fleet management costs and available budgets were consolidated to undertake the affordability test in the cost benefit analysis.
- A needs analysis was conducted from questions on vehicle requirements, long term, short term, and replacement terms of vehicles, vehicle specification, vehicle utilisation levels and additional vehicle accessory requirements. The needs of departments will be evaluated in the cost benefit model to determine affordability of fleet management requirements and the best fleet management model to deliver the fleet management service.

#### 4.3.2.3.2 Review research imperfections in terms of the structure and reliability of the questionnaire

According to Ghauri and Gronhaug, 2002, the reliability and validity of the research instrument utilised must measure what it intended to measure. An email questionnaire was used as a research instrument. The questionnaire consisted of 36 questions those are relevant to fleet management outsourcing viability in government (Annexure 1). The questions were designed to determine how fleet management is performed in the public sector. It was important to establish whether the research instrument had actually measured what it was supposed to measure. To verify the consistency of the inter-item reliability of the questionnaires, the reliability of the data was tested against data recorded in external systems that exist outside public sector through current service providers providing services to government, in chapter 3 and 5. The test indicated an 84.8% reliability of the data, and therefore, the reliability of the research instrument can be regarded as good.

#### 4.3.4 Data analysis (evaluation and interpretation of data)

According to Ghauri and Gronhaug, 2002, data analysis, in chapter 5, will be conducted as depicted in the following diagram:



**Figure 10: Components of data analysis (Source: Ghauri and Gronhaug, 2002)**

Results of the questionnaire presented in chapter 5 responds to the research problem and research objectives of the study. All primary and secondary data gathered, in the study, was analysed in order to determine its relevance, validity and importance to the research problem. Data gathered in this

study, through secondary and primary sourced, were consolidated, interpreted and evaluated in chapter 5 using cost benefit analysis techniques and evaluating against relevant theory established in chapter 2.

#### **4.3.5 Conclusion and recommendations**

The conclusion and recommendations in chapter 6 was limited to the parameters of the problem statement and data collated during the research process. The information gathered through both primary and secondary sources will be utilised was used to justify the research. The conclusions and recommendations that were reached as a result of the study as documented in chapter 6.

#### **4.4 Conclusion**

The research design and methodology is detailed in this chapter and was based on an investigation of events, theories, models relating to the topic and problem statement. Finally, the research approach was designed to yield results, conclusion and recommendations in chapter 5 and 6 that will provide a solution to the problem statement established in chapter 1.

Theories and models on fleet management and outsourcing established in chapter 2 were applied in the formulation of the questionnaire to determine a fleet management model for the public sector in chapter 6.

Chapter 5 will present the results, through data analysis, to address the study objectives and answer the research problem of the study established in chapter 1. Data gathered through secondary and primary sourced were consolidated interpreted and evaluated in chapter 5 using cost benefit analysis techniques and testing against relevant theory established in chapter 2.

## **Chapter 5**

Chapter 4 detailed the research design and methodology of the study. The research approach addresses the objective of the study, definition of the research procedure, review research imperfections, analysis the data in this chapter and draws conclusions and recommendations in chapter 6 from the evaluation of the data in chapter 5.

This chapter will present a detailed analysis of fleet management in the public sector. A complete cost analysis will be undertaken to determine the cost benefit of fleet management in the public sector in order to answer the research problem.

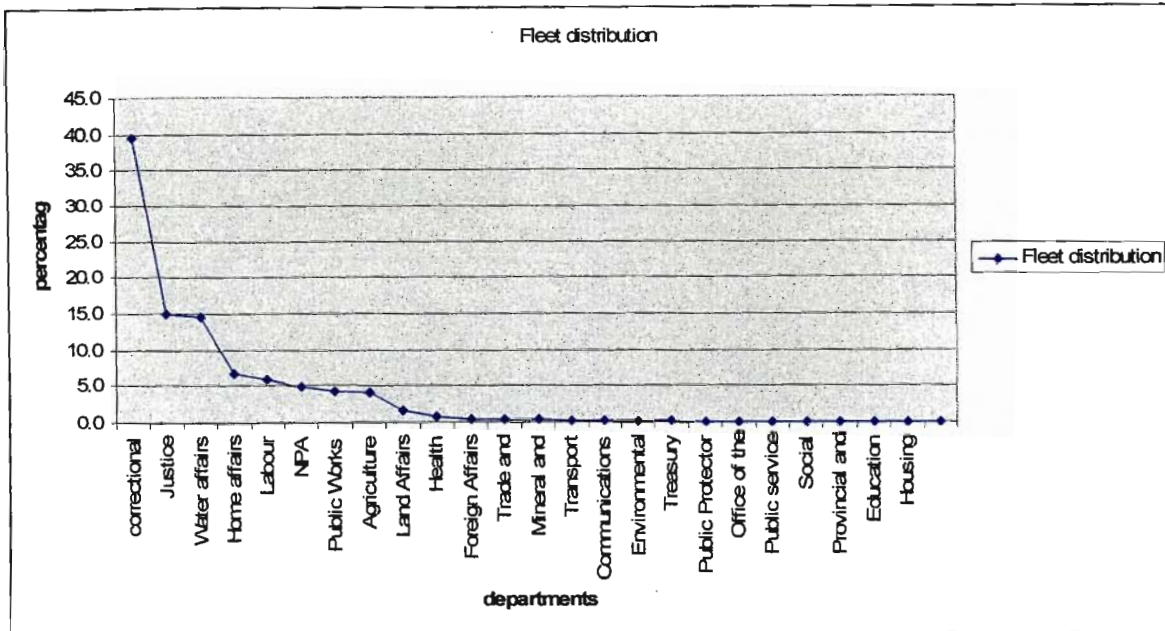
In an effort to achieve the research objective an analyse of fleet management was undertaken in national government (33 national departments) against fleet management principles to establish a strategic management model for fleet management in the public sector. An empirical investigation was performed using a questionnaire and triangulated with a cost benefit analysis and pattern matching of fleet management and outsourcing concepts outlined in chapter 2.

### **5.1 Data analysis (evaluation and interpretation of data)**

Results from the questionnaire are presented through data analysis and interpretation of data. As suggested by Ghauri and Gronhaug, 2002, the data was collected via a questionnaire (Annexure1), and reduced into tables and graphs displaying the findings from the data collection phase.

As indicated in chapter 2, a cost benefit analysis is essential in determining outsourcing in the public sector. The results of the total fleet distribution and source of vehicles for the 28 national departments are listed in Table 5.1. The table consolidates results from the questionnaire and indicates sources of vehicle fleets. The source and distribution of vehicles indicates where vehicles are required and volume of vehicles required per department.

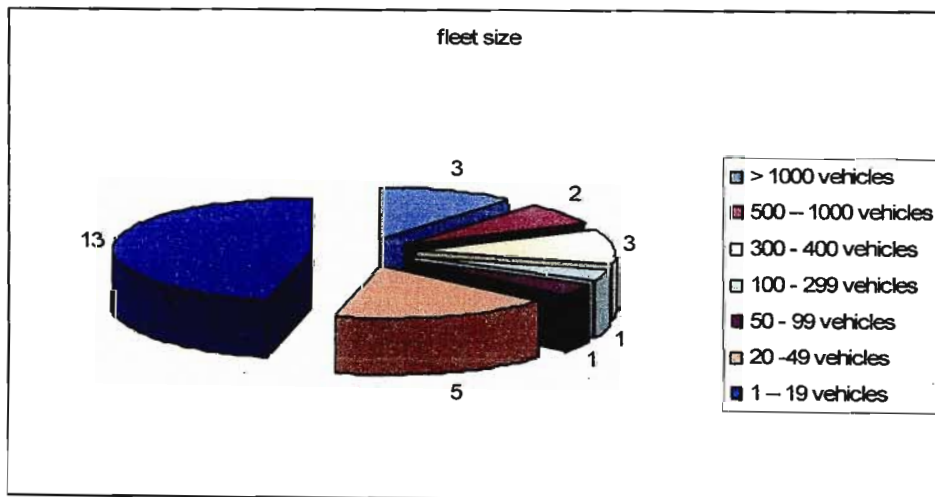




**Figure 11: Fleet distribution per department (Source: consolidated from question 8, Annexure 1)**

The following figure 12 presents a stratification of the fleet in terms of number of vehicles per department. 13 departments have 1-19 vehicles whilst 3 departments have more than a 1000 vehicles. In response to question 9 and 10 of Annexure 1, 98% of departments preferred to acquire vehicles through their own departments directly from the motor manufacturer via state contracts to attain efficiency in the vehicle acquisition process. Departments indicated that dealing with government garages was inefficient, added no value and time consuming.

The stratification of fleet analysis indicates where fleet management solutions should be emphasised in terms of optimal resource allocation.

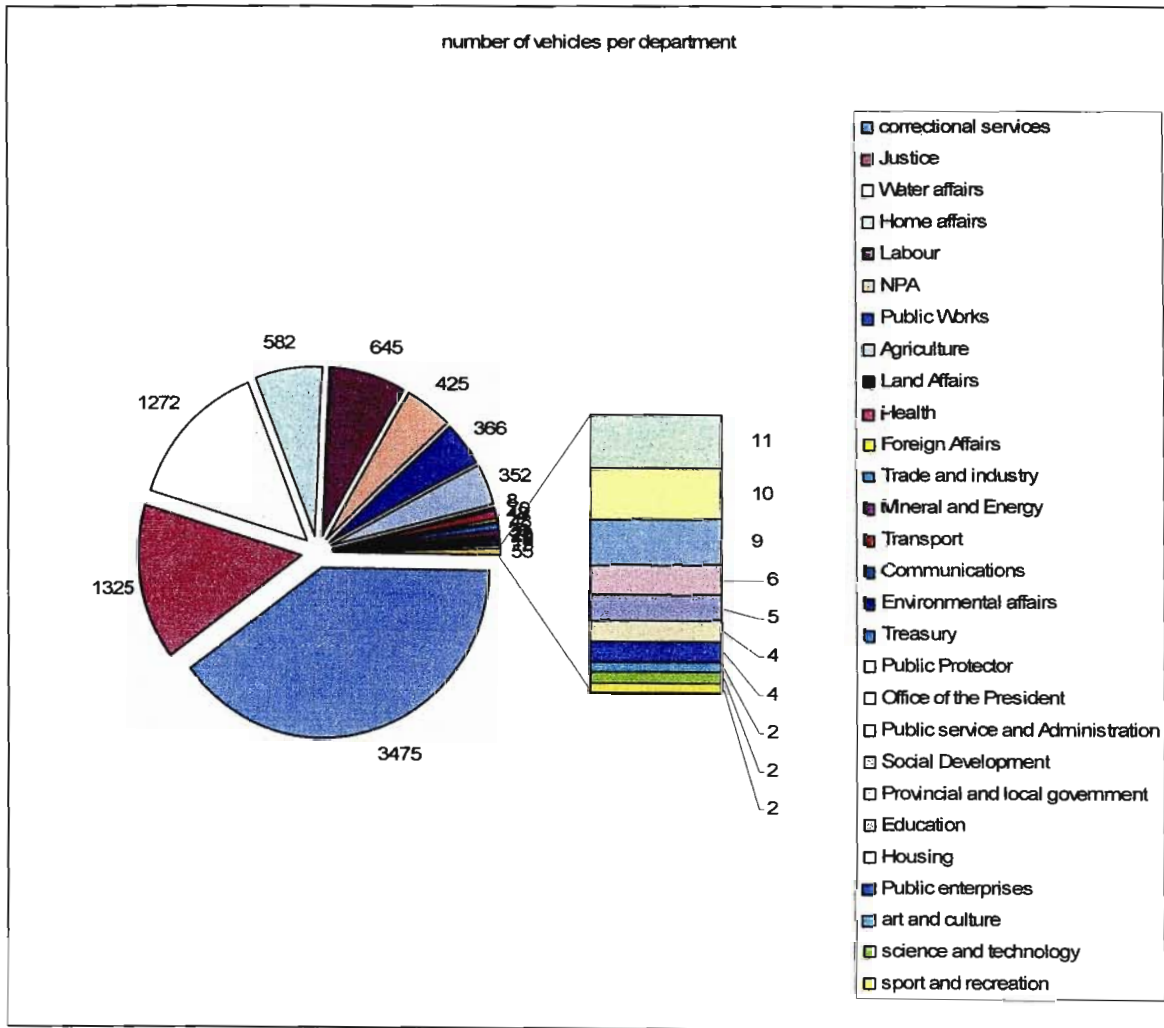


**Figure 12: Fleet size (Source: consolidated from question 3, Annexure 1)**

	Motor-cycles	Sedan	Pass Transport - Light	Light Commercial	Pass Transport - Heavy	Medium & Heavy Commercial	Commercial Specialised (SP)	TOTAL
<b>GG and Departmental</b>								
Correctional Services	30	1255	340	1367	89	290	104	3475
Justice & Constitutional Development	0	1057	49	216	0	2	1	1325
Home Affairs	0	326	33	184	0	34	5	582
Agriculture	4	136	13	129	1	64	5	352
Public Works	2	104	15	102	0	27	0	250
Labour	0	77	6	59	0	1	0	143
NPA	0	36	7	21	0	0	0	64
Foreign Affairs	2	36	4	6	0	0	0	48
Minerals & Energy affairs	0	27	1	8	0	0	0	36
Communications	0	19	0	1	0	0	0	20
Environmental Affairs & Tourism	0	15	0	3	0	0	0	18
National Treasury	0	15	1	2	0	0	0	18
Water Affairs & Forestry	0	2	0	10	0	0	0	12
The Presidency	0	10	1	0	0	0	0	11
Public Service & Administration	0	9	0	1	0	0	0	10
Social Development	0	9	0	0	0	0	0	9
Land Affairs	0	1	0	5	0	2	0	8
Provincial & Local Government	0	3	2	1	0	0	0	6
Education	0	4	0	1	0	0	0	5
Trade & Industry	0	5	0	0	0	0	0	5
Housing	0	4	0	0	0	0	0	4
Public Enterprises	0	3	0	1	0	0	0	4
Arts & Culture	0	2	0	0	0	0	0	2
Science & Technology	0	2	0	0	0	0	0	2
Sport & Recreation	0	2	0	0	0	0	0	2
<b>TOTAL</b>	<b>38</b>	<b>3159</b>	<b>472</b>	<b>2117</b>	<b>90</b>	<b>420</b>	<b>115</b>	<b>6411</b>
	1%	49%	7%	33%	1%	7%	2%	100%
<b>RTG vehicles</b>								
Trade and Industry	0	42	0	1	0	0	0	43
Health	0	60	7	3	0	0	0	70
Labour	0	450	1	51	0	0	0	502
NPA	0	342	3	12	0	4	0	361
Public Prtector	0	10	5	0	0	0	0	15
Public Works	0	76	1	36	0	3	0	116
Transport	0	23	0	0	0	0	0	23
DWAF	2	301	51	672	6	228	0	1260
<b>TOTAL</b>	<b>2</b>	<b>1304</b>	<b>68</b>	<b>775</b>	<b>6</b>	<b>235</b>	<b>0</b>	<b>2390</b>
	0%	55%	3%	32%	0%	10%	0%	100%
<b>TOTAL</b>	<b>40</b>	<b>4463</b>	<b>540</b>	<b>2892</b>	<b>96</b>	<b>655</b>	<b>115</b>	<b>8801</b>
	0.5%	51%	6%	33%	1%	7%	1%	100%
		91%						

**Table: 5.2 Types of vehicles currently operated (Source: consolidated from question 4, Annexure 1)**





**Figure 13: Number of vehicles per department (Source: consolidated from question 4, Annexure 1)**



Department	Number of vehicles required	%	Current number of vehicles	Increase (Decrease) in fleet size
Corr Servs	3474	40%	3475	-1
Water Affairs	1325	15%	1272	53
Justice	1325	15%	1325	0
NPA	455	5%	425	30
Home Affairs	453	5%	582	-129
Public Works	409	5%	366	43
Labour	392	4%	510	-118
Agriculture	359	4%	352	7
Land Affairs	150	2%	143	7
Mineral	60	1%	36	24
Foreign Aff	48	1%	48	0
Presidency	48	1%	11	37
Trade & Indust	48	1%	48	0
Env Affairs	28	0%	18	10
Gcis	24	0%	20	4
Treasury	23	0%	18	5
Prov And Local Govt	20	0%	6	14
Health	19	0%	70	-51
Social Dev	18	0%	9	9
Sports	13	0%	2	11
Pub Serv & Admin	10	0%	10	0
Pub Enterp	9	0%	4	5
Arts	8	0%	2	6
Education	6	0%	5	1
Transport	5	0%	23	-18
Housing	4	0%	4	0
Science & Tech	3	0%	2	1
	8736	100%	8786	-50

**Table: 5.3 Types of vehicles currently operated vs. vehicle required (Source: consolidated from Annexure 1)**

Analysis of table 5.3 indicates that 8 departments have fleets in excess of 300 vehicles that represent 93% of the total fleet and an overall decrease in fleet size by 50 vehicles is anticipated.

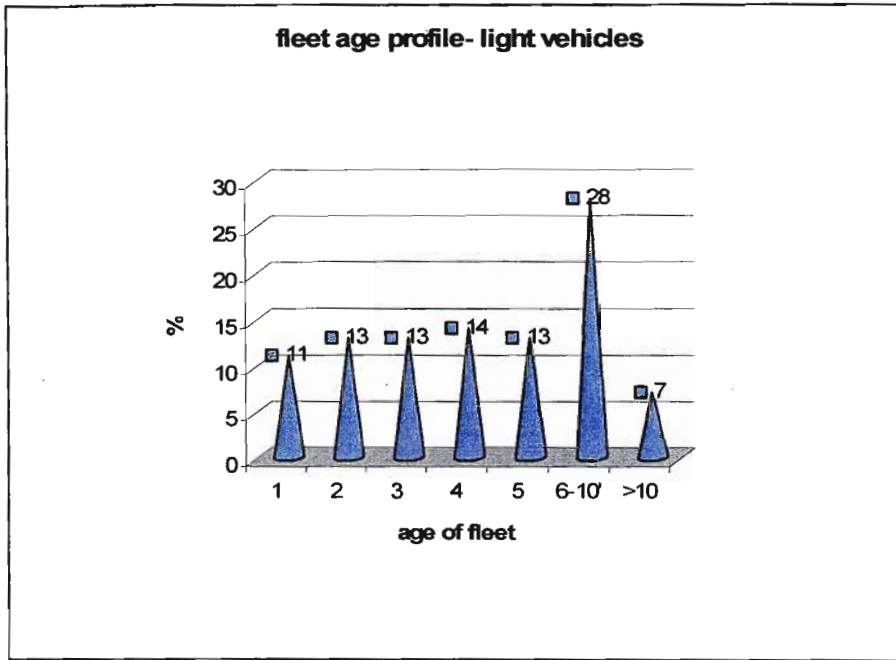
Table 5.5 indicates that 91% of the fleet comprises light motor vehicles. 8% of the fleet comprises heavy motor vehicles. Only 1% of the fleet comprises specialised vehicles. Specialised vehicles are used mainly by the Department of Correctional Services and the Department of Water Affairs.

The total fleet size is 8801 depicted in table 5.2, is relatively large and ranks amongst the top five fleet sizes in South Africa (Wesbank statistics, 2005). The large fleet size implies that any potential service provider will require significant resources to meet the needs of departments adequately, if the outsourced fleet option is recommended as the solution to the research problem. It also implies that the private sector is likely to compete vigorously for the opportunity to service these needs of government via an outsourcing arrangement. The overall fleet reduction exercise correlates with responses to question 29, Annexure 1, as all departments indicated that access to new vehicles will reduce the number of vehicles required.

**5.1.2. Analysis of vehicle ageing in years**

	Motorcycles	Sedan	Passenger Transport - Light	Light Commercial	TOTAL	%
1 Yr	1	335	22	274	632	11%
2 Yr	3	507	57	191	758	13%
3 Yr	0	409	75	287	771	13%
4 Yr	5	428	58	334	825	14%
5 Yr	3	372	88	299	762	13%
6-10 Yr	15	923	145	555	1638	28%
>10 Yrs	11	182	26	175	394	7%
Unknown	0	0	1	1	2	0%
	<b>38</b>	<b>3156</b>	<b>472</b>	<b>2116</b>	<b>5782</b>	

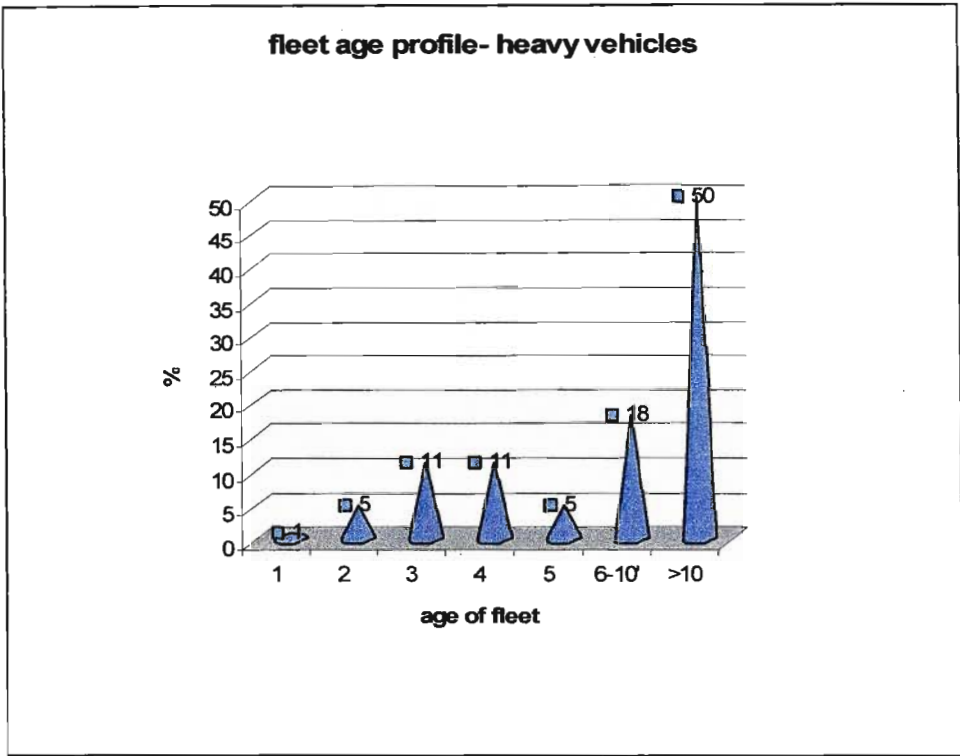
**Table 5.4 Age profile of light delivery vehicles (Source: consolidated from question 5, Annexure 1)**



**Figure 14: Age profile of light delivery vehicles (Source: consolidated from question 5, Annexure 1)**

	Passenger Transport - Heavy	Medium & Heavy Commercial	Commercial SP	TOTAL	%
1 Yr	0	3	1	4	1%
2 Yr	12	6	14	32	5%
3 Yr	14	41	15	70	11%
4 Yr	11	46	9	66	11%
5 Yr	4	22	6	32	5%
6-10 Yr	15	62	34	111	18%
>10 Yrs	34	240	36	310	50%
Unknown	0	0	0	0	0%
	<b>90</b>	<b>420</b>	<b>115</b>	<b>625</b>	

**Table 5.5 Age profile of heavy delivery vehicles (Source: consolidated from question 5, Annexure 1)**



**Figure 15: Age profile of heavy delivery vehicles (Source: consolidated from question 5, Annexure 1)**

Interpretation and analysis of tables 5.4 and 5.5, indicates that in terms of acceptable replacement criteria specified by the motor manufacturers (Vehicle user manual published per manufacturer), 2024 light vehicles (or 35% of light vehicle fleets) are overdue for replacement. In terms of acceptable replacement criteria, as determined by the motor manufacture, 310 heavy and specialised vehicles (or 50% of heavy and specialised vehicle fleets) are overdue for replacement.

### 5.1.3 Analysis of fleet utilisation

Kms per month	Motorcycles	Sedan	Passenger		Light Commercial	Medium & Heavy Commercial	Commercial SP	TOTAL	%
			Transport-	Transport-					
			Light	Heavy					
1km - 500km	24	243	46	14	204	141	35	707	11%
501km - 1000km	0	458	60	22	322	94	23	979	15%
1001km - 2000km	0	996	122	32	605	69	27	1851	29%
2001km - 3000km	0	702	95	9	385	16	6	1213	19%
3001km - 4000km	0	299	49	3	205	7	7	570	9%
4001km - 5000km	0	109	23	2	83	0	0	217	3%
5001km - 6000km	0	37	4	0	30	0	1	72	1%
6001km - 7000km	0	14	7	0	13	0	0	34	1%
7001km - 8000km	0	4	1	0	7	1	0	13	0%
8001km - 10000km	0	2	3	0	9	0	0	14	0%
> 10000km	0	2	1	0	1	1	1	6	0%
Unknown	14	292	61	8	250	91	15	731	11%
	<b>38</b>	<b>3158</b>	<b>472</b>	<b>90</b>	<b>2114</b>	<b>420</b>	<b>115</b>	<b>6407</b>	<b>100%</b>

**Table 5.6 Vehicles utilisation per vehicles category (Source: consolidated from question 7, Annexure 1)**

According to table 5.6, 26% of the government vehicles travel less than 1000 kilometres per month and are under-utilised in comparison to norms and standards of optimal vehicle utilisation specified by motor manufactures (Vehicles user manuals, example Toyota “Book of Life”, 2005) . The average utilisation per vehicle is 1578 kilometres per month that is below the optimal vehicle utilisation of 2500 kilometres per month as recommended by accredited motor manufacturers.

In response to question 11 of Annexure 1, 100% of departments source 2% of their fleet requirements on an ad hoc basis from rental companies like Avis, Imperial and Budget.

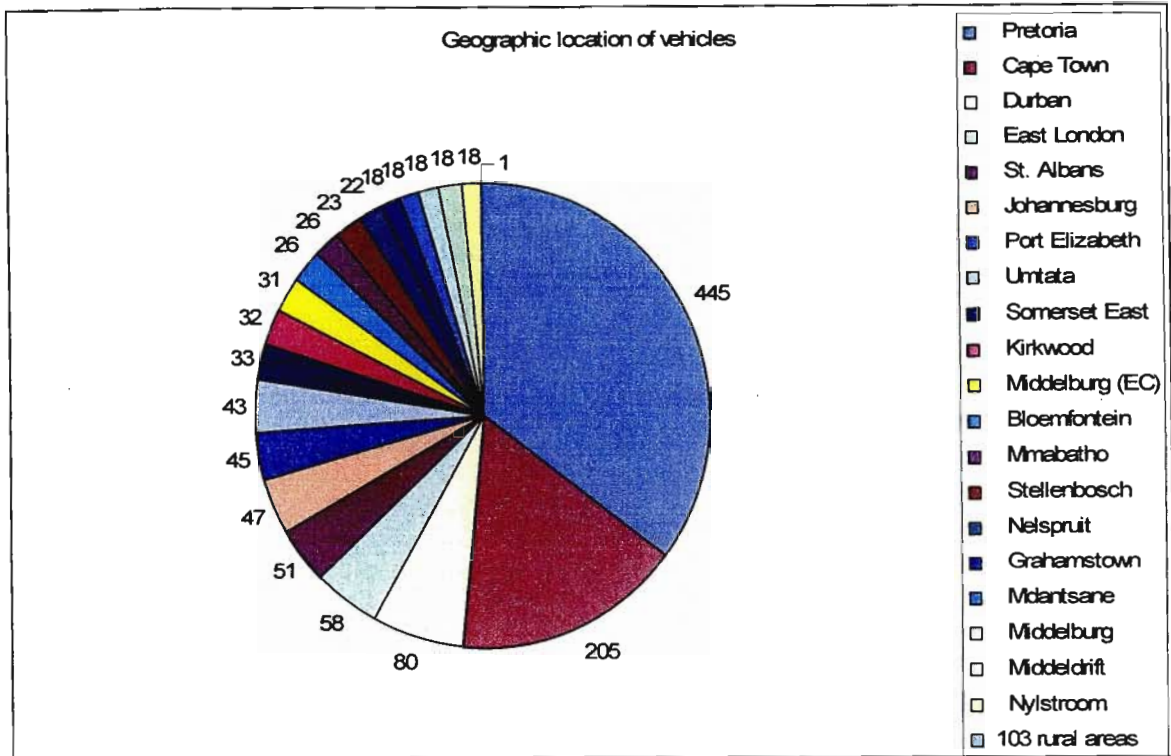
### 5.1.4 Geographic spread of vehicle fleets

Based on responses to question 12 of Annexure 1, the analysis confirms that the majority of vehicles are located in major centres and that very few vehicles are located in rural areas. This suggests that it is unlikely to be cost effective to attempt to service rural users from especially established facilities.

It also implied that users in rural areas may have to compromise on turnaround times for the supply of short terms vehicles, for breakdown services and for completing repairs if an outsourcing solution is selected. The size of fleet and geographic spread of vehicles does will not justify dedicated fleet resources per service areas but justify a central fleet management approach.

<b>Location</b>	<b>Total vehicles at location</b>	<b>Number of departments at location</b>
Pretoria	445	3
Cape Town	205	3
Durban	80	3
East London	58	3
St. Albans	51	1
Johannesburg	47	3
Port Elizabeth	45	4
Umtata	43	3
Somerset East	33	2
Kirkwood	32	1
Middelburg (EC)	31	1
Bloemfontein	26	3
Mmabatho	26	2
Stellenbosch	23	1
Nelspruit	22	4
Grahamstown	18	2
Mdantsane	18	1
Middelburg	18	3
Middeldrift	18	1
Nylstroom	18	1
103 rural areas	1	1

**Table 5.7: Vehicles geographic location and fleet size (Source: consolidated from question 12, Annexure 1)**



**Figure 16: Vehicles geographic location and fleet size (Source: consolidated from question 12, Annexure 1)**

### 5.1.5. Fleet management capacity of departments

In response to question 26 of Annexure 1, departments indicated less than 1% fleet management training took place last year in the following key training areas of:

- Managing vehicles and vehicle related expenses
- Driver training
- Technical staff training (mechanics, artisans, etc)
- Other vehicle related training



### 5.1.6. Future fleet utilisation requirements

Response to question 35, Annexure 1 indicates that 27% or 9 of the total number of departments in the sample population were unable to adequately predict the future vehicle utilisation requirements. This implies, that the department are unable to measure fleet utilisation, and therefore unable to manage it. Fleet utilisation is a fundamental principle of effective fleet management and must be managed. The following table 5.8 presents a comparison of current average utilisation levels per department with anticipated utilisation levels. In terms of the literature review in chapter 2, on fleet management fleet utilisation is an important variable that must be measured when performing a cost benefit analysis to achieve an optimal fleet management solution.

<b>Department</b>	<b>Required average utilisation</b>	<b>Current average utilisation</b>
Agriculture	2,283	1,388
Arts	1,875	1,370
Corr Servs	Not supplied	1,652
Education	1,833	1,582
Env Affairs	3,321	1,866
Foreign Aff	2,833	986
Gcis	1,500	1,796
Health	1,000	n/a
Home Affairs	Not supplied	1,851
Housing	Not supplied	n/a
Justice	Not supplied	1,340
Labour	2,922	1,568
Land Affairs	Not supplied	1,593
Mineral	3,667	1,853
NPA	2,510	3,072
Presidency	6,000	1,622
Prov And Local Govt	2,475	n/a
Pub Enterp	Not supplied	n/a
Pub Serv & Admin	Not supplied	2,677
Public Works	Not supplied	1,032
Science & Tech	5,000	1,919
Social Dev	900	1,105
Sports	2,077	1,224
Trade & Indust	Not supplied	1,475
Transport	1,300	n/a
Treasury	1,000	763
Water Affairs	2,819	2,138

**Table 5.8: Vehicles fleet utilisation requirements (Source: consolidated from question 35, Annexure 1)**

### 5.1.7 Fleet specification requirements

Analysis of the question 33 and 34, Annexure 1, is summarised in the following table 5.9. The table indicates a consolidated view of basic vehicle specifications across all departments in the sample population required to perform key functions within those departments.

Type of vehicle	Engine size	Colour	Make	Air conditioner	Radio/Tape	Additional vehicles features
Sedan	1600	No pref.	Toyota, Nissan	Yes	Radio	Vehicle tracking
LDV	1800 LWB 2000 SWB 2000 LWB	No pref.	Mazda, Toyota, SWB	Yes	Radio	Vehicle tracking
LDV 4X4	2400/ 2500	No pref.	Mazda, Toyota, Isuzu	Yes	Radio	Vehicle tracking

**Table 5.9 Vehicles specification requirements (Source: consolidated from question 33, Annexure 1)**

### 5.1.8. Service level requirements

The following table 5.10 summarises fleet service level requirements of key vehicle specifications extracted from answers to the questionnaire, Annexure 1. The following service level defines fleet operational requirements that will be taken into account in the cost benefit analysis.

Service level	Correctional Services	Justice	Water Affairs	Public Works	Agriculture	Other departments	Consolidated requirement
Delivery of permanent vehicles	1 month	1 month	3 days	2 weeks	1 month	1 month	1 month
Delivery of short-term vehicle	1 hour	2 hours	12 hours	1 day	48 hours	12 hours	12 hours

Service level	Correctional Services	Justice	Water Affairs	Public Works	Agriculture	Other departments	Consolidated requirement
Light replacement	5 yrs 150k	5 yrs 120k	--	3 yrs 100k	5 yrs 150k	4 yrs 120k	5 yrs 150k
Medium-heavy replacement criteria	10 yrs 300k	6 yrs 200k	--	2 yrs 100k	5 yrs 200k	4 yrs 125	8 yrs 200k
Waiting for routine maintenance	8 hours	8 hours	8 hours	8 hours	8 hours	8 hours	8 hours
Breakdown assistance	24/7/365	24/7 365	24/7/365	24/7/365	24/7/365	24/7/365	24/7/365
Breakdown response time in town	½ hour	½ hour	1 hour	1 hour	1 hour	45 min.	45min.
Breakdown response time out of town	2 hours	2 hours	2 hours	2 hours	2 hours	2 hours	2 hours
Accident response time – in town	½ hour	½ hour	1 hour	1 hour	1 hour	45 min.	45 minutes
Accident response time	2 hours	2 hours	2 hours	2 hour	2 hours	2 hours	2 hours
Accident replacement	8 hours	8 hours	8 hours	24 hours	8 hours	16 hours	8 hours
Replacement for write-off	1 week	1 month	1 day	1 week	1 month	1 month	1 week

**Table 5.10: Service level requirements (Source: consolidated from question 17-31, Annexure 1)**

### 5.1.9 Cost benefit analysis of fleet options

A cost benefit analysis of fleet management options is displayed in Table 5.13. The cost benefit analysis includes analysis of budget indicators extracted and consolidated from question 27, costing of minimum service levels requirements indicated in table 5.10 and benchmarked against fleet costs determined from case studies in chapter 3 and tables 5.11 and 5.12. Table 5.14 presents a comparison of total fleet costs of three options to determine an appropriate fleet management solution in the public sector.

<b>Department</b>	<b>Total Projected Budget for 5 Years</b>	<b>Projected Budget Per Vehicle</b>
Pub Enterp	R 342,589	R 38,065
Agriculture	R 32,888,440	R 91,611
Justice	R 121,601,045	R 92,192
Public Service	R 930,346	R 93,035
Home Affairs	R 42,905,641	R 94,714
Environmental Affairs & Tourism	R 3,183,596	R 113,700
Treasury	R 2,910,476	R 126,542
Foreign Affairs	R 6,512,020	R 135,667
Minerals	R 11,876,745	R 197,946
Land Affairs	R 32,915,539	R 219,437
Communication	R 5,443,737	R 226,822
Prov & Local Gov	R 5,605,781	R 280,289
Correctional	R 1,129,905,611	R 325,246
Sports	R 5,217,343	R 401,334
Soc Dev	R 13,187,016	R 732,612
Labour	R 303,658,574	R 774,639
Water affairs	R 1,171,457,154	R 884,119
Arts & Culture	R 7,520,242	R 940,030
Health	R 85,018,635	R 4,474,665
Transport	R 32,232,899	R 6,446,580
Education	R 170,141,244	R 28,356,874
Housing	Not supplied	n/a
NPA	Not supplied	n/a
Presidency	Not supplied	n/a
Public Works	Not supplied	n/a
Science	Not supplied	n/a
Trade and Industry	Not supplied	n/a

**Table 5.11 Budget indicators per department (Source: consolidated from question 27, Annexure 1)**

	<b>Current fleet size</b>	<b>Current total spend/budget</b>	<b>Current total spend/budget per vehicle</b>
City of Johannesburg	3,546	440,000,000	124,083
National Govt - RTG users	2,390	291,668,000	122,037
Eastern Cape	2,903	246,757,048	85,001
Northern Cape	480	37,000,000	77,083
Western Cape	3,769	254,000,000	67,392
SAPS	33,945	1,956,000,000	57,623
Free State	3,083	142,000,000	46,059
Gauteng	4,800	204,079,000	42,516
National Govt - non RTG users	4,001	233,886,904	58,457
Limpopo	3,804	118,274,666	31,092
Mpumalanga	2,482	72,455,685	29,192
City of Durban	4,800	140,000,000	29,167
North West	2,800	48,000,000	17,143
KwaZulu-Natal	4,644	69,740,114	15,017
SANDF	19,000	250,000,000	13,158
	<b>96,447</b>	<b>4,503,861,417</b>	<b>46,698</b>
Government subsidised vehicle fleet - Avis	2,102	17,370,832	8,264
Government subsidised vehicle fleet - Fleet Africa	14,086	120,000,000	8,519

**Table 5.12 Analysis of the fleet sizes and costs of fleet management in the public sector  
(Source: Fleet management report, Department of Transport, 2005).**

Department	Outsource Option	Government Option	Difference
Agriculture	R 164,204,153	R 152,128,128	R -12,076,025
Arts & Culture	R 4,747,049	R 3,636,803	R -1,110,246
Communication	R 7,143,678	R 7,822,935	R 679,257
Correctional	R 1,483,085,237	R 1,458,741,311	R -24,343,926
Education	R 3,869,737	R 2,784,479	R -1,085,258
Environmental Affairs & Tourism	R 12,294,328	R 12,104,818	R -189,510
Foreign Affairs	R 18,683,527	R 16,123,112	R -2,560,415
Health	R 7,000,417	R 6,818,336	R -182,082
Home Affairs	R 141,362,896	R 142,587,739	R 1,224,843
Housing			R -
Justice	R 447,046,890	R 474,168,454	R 27,121,564
Labour	R 147,888,525	R 156,413,266	R 8,524,742
Land Affairs	R 52,551,811	R 53,821,971	R 1,270,160
Minerals	R 28,338,782	R 27,863,299	R -475,483
NPA	R 210,652,660	R 202,137,574	R -8,515,086
Presidency	R 28,851,778	R 26,309,537	R -2,542,241
Prov & Local Gov	R 9,513,827	R 9,139,716	R -374,111
Pub Enterp	R 4,787,641	R 4,148,593	R -639,049
Public Service	R 4,604,847	R 3,227,291	R -1,377,556
Public Works	R 151,130,562	R 139,533,182	R -11,597,380
Science	R 3,724,843	R 2,782,522	R -942,322
Soc Dev	R 5,945,755	R 5,970,348	R 24,593
Sports	R 6,894,575	R 5,711,781	R -1,182,794
Trade and Industry			R -
Transport	R 3,611,523	R 2,888,485	R -723,038
Treasury	R 6,223,157	R 4,587,878	R -1,635,279
Water affairs	R 743,096,074	R 716,583,766	R -26,512,308
	R 3,697,254,271	R 3,638,035,324	R -59,218,947

**Table 5.13 Cost benefit analysis of fleet options (Source: consolidated from Annexure 1)**

Department	No of vehicles required	Total Projected Budget for 5 Years	Projected Budget Surplus (Deficit) Public sector Option	Projected Budget Surplus (Deficit) Govt. Garage Option	Projected Budget Surplus (Deficit) Outsource	Projected Budget Surplus (Deficit)	Projected Budget Per Vehicle
Pub Enterp	9 R	342,589	R -3,483,073	R -5,067,811	R -4,445,052	R -3,808,004	R 38,065
Agriculture	359 R	32,888,440	R -100,619,843	R -125,984,223	R -131,315,713	R -119,239,889	R 91,611
Justice	1319 R	121,601,045	R -298,077,594	R -437,394,151	R -325,445,845	R -352,567,409	R 92,192
Public Service	10 R	930,346	R -2,129,371	R -2,725,534	R -3,674,502	R -2,296,945	R 93,035
Home Affairs	453 R	42,905,641	R -82,849,114	R -124,408,025	R -98,457,255	R -99,682,096	R 94,714
Environmental Affairs & Tourism	28 R	3,183,596	R -7,753,421	R -10,917,171	R -9,110,732	R -8,921,222	R 113,700
Treasury	23 R	2,910,476	R -1,291,104	R -3,402,617	R -3,312,681	R -1,677,402	R 126,542
Foreign Affairs	48 R	6,512,020	R -8,808,015	R -10,510,019	R -12,171,507	R -9,811,092	R 135,667
Minerals	60 R	11,876,745	R -13,113,434	R -18,930,890	R -16,462,037	R -15,986,554	R 197,946
Land Affairs	150 R	32,915,539	R -16,117,940	R -13,576,531	R -16,636,271	R -20,906,431	R 219,437
Communication	24 R	5,443,737	R -1,604,659	R -4,580,175	R -1,699,941	R -2,379,198	R 226,822
Prov & Local Gov	20 R	5,605,781	R -2,864,539	R -5,286,886	R -3,908,047	R -3,533,936	R 280,289
Correctional	3474 R	1,129,905,611	R -163,104,916	R -442,819,879	R -353,179,626	R -328,535,700	R 325,246
Sports	13 R	5,217,343	R -24,373	R -2,813,806	R -1,677,232	R -494,438	R 401,334
Soc Dev	18 R	13,187,016	R 7,307,176	R 5,332,941	R 3,341,907	R 1,219,566	R 732,612
Labour	392 R	303,658,574	R 183,115,454	R 185,973,170	R 185,770,046	R 187,245,327	R 774,639
Water affairs	1325 R	1,171,457,154	R 532,041,016	R 666,721,774	R 466,305,096	R 434,473,364	R 884,119
Arts & Culture	8 R	7,520,242	R 4,106,543	R 5,865,094	R 6,773,194	R 5,983,438	R 940,030
Health	19 R	85,018,635	R -78,815,130	R -76,190,050	R -76,013,217	R -76,200,299	R 4,474,665
Transport	5 R	32,232,899	R -29,505,757	R -28,707,427	R -28,021,378	R -26,544,474	R 6,446,580
Education	6 R	170,141,244	R -167,505,172	R -168,199,674	R -165,071,507	R -167,356,764	R 28,356,874
Housing	0	Not supplied	n/a	n/a	n/a	n/a	n/a
NPA	455	Not supplied	n/a	n/a	n/a	n/a	n/a
Presidency	48	Not supplied	n/a	n/a	n/a	n/a	n/a
Public Works	409	Not supplied	n/a	n/a	n/a	n/a	n/a
Science	3	Not supplied	n/a	n/a	n/a	n/a	n/a
Trade and Industry	0	Not supplied	n/a	n/a	n/a	n/a	n/a
	8678 R	3,185,454,672	R -282,046,556	R -402,264,971	R -317,439,756	R -318,117,857	

Key: **Red** : unaffordable

**Green**: Affordable

**Table 5.14 Cost benefit of total fleet management options (Source: consolidated from Annexure 1)**

Based on the data consolidated from responses to the questionnaire, Annexure 1, table 5.14 reflects the following:

- 21 departments provided budgetary information;
- six departments were not able to identify a fleet budget;
- seven departments are able to afford to meet their fleet operational needs; and
- 21 departments cannot afford any fleet management option which indicates that departments are not adequately budgeting for effective fleet management operations. The current fleet management service provision is inefficient; however, at the appropriate budget levels optimal fleet efficiency can be achieved. The analysis above is confirmed by responses to question 28, Annexure 1 where 80% of departments indicated that access to adequate fleet budgets was key problem to inefficient fleet management in the public sector.



## 5.10 Fuel administration

The following fuel operating cost statistics were computed from Wesbank First Auto, 2005 and Imperial fleet Services, 2005 to determine the average fuel cost per kilometre.

	<b>GG sourced fleets</b>	<b>Departmental sourced fleets</b>	<b>Total</b>
Fuel costs per kilometre	0.47	0.52	
Maintenance costs per kilometre	0.22	0.23	
Tyres costs per kilometre	0.05	0.04	
Total costs per kilometre	0.80	0.82	
Total cost (R )	60,717,836	37,115,331	97,833,167
Number of vehicles	3,801	2,618	6,419
Total cost per vehicle (R )	15,974	14,177	15,241

**Table 5.15 Fuel costs per kilometre (Source: Wesbank First Auto, 2005).**

Statistics in table 5.16 were computed from Imperial Fleet Services records for the year ended 31 March 2005. These statistics *include* capital, insurance and financing costs and may therefore not be directly compared with the costs attributable to the Government (GG) and Departmental owned vehicles as table 5.15 excludes these costs.

	<b>Total cost</b>	<b>Number of vehicles</b>	<b>Cost per vehicle</b>	<b>Fuel cpk</b>
Water Affairs	188,019,397.99	1260	149,222	0.62
Health	19,101,045.07	70	272,872	0.40
Labour	54,523,576.87	502	108,613	0.40
Transport	6,485,218.91	23	281,966	0.38
NPA	42,030,885.17	361	116,429	0.50
Public Works	13,418,881.85	116	115,680	0.44
Public Protector	884,275.70	15	58,952	0.39
DTI	4,031,115.53	43	93,747	0.39
	<b>328,494,397.09</b>	<b>2,390</b>	137,445	0.55

**Table 5.16 Fuel costs per kilometre (Source: Imperial fleet Services, 2005).**

Analysis of question 15 and 36 of Annexure 1 indicates that 73% of departments procure fuel and toll administrative services from Wesbank First Auto whilst the remaining 27% receive these services from Imperial Fleet Services.

According to responses to question 25, Annexure 1, 95% of departments indicated that there is perceived fuel fraud whilst 5% indicated that fuel fraud was adequately outsourced to Imperial Fleet Services.

## **5.2 Pattern matching of results to theory**

Results of the research were triangulated against the outsourcing theory in Chapter 2 via pattern matching. **Pattern matching** was utilised to establish a preponderance of the case with each of the links in the theoretical models, which, drives the case study.

The theory of outsourcing was presented in terms of outsourcing as a test for management competence. Management competence in the public is not conducive to attaining the benefits of outsourcing as the basic fleet management skill and common technical competencies for outsourcing is not available to manage these outsourced agreements.

As suggested by McIvor (2000), the public sector behaviour is consistent with theory that indicates that outsourcing decisions are taken without any consideration of a long-term strategy for fleet management. The fleet management decision-making is based on a short-term goal and is based on a cost reduction motive in the fleet business process. Furthermore, as suggested by Lonsdale and Cox (1997), the public sector do not have a definite outsourcing framework to guide an optimal fleet management solution therefore often the wrong costly fleet operational decisions are made.

### **5.2.1 The analysis of the case study in relation to the National Outsourcing Association advice for successful outsourcing reveals certain features which are discussed below.**

- **Research and be prepared**

Comprehensive research in the public sector is not always undertaken to ensure that outsourcing deals are executed with an open mind and with all alternatives explored before making an outsourcing decision. The public sector, due to lack of capacity and skills to manage the outsourcing project expects the outsourced function to be managed by the supplier and this should not be the case.

- **Find the right fit**

The client-supplier relationship is determined in the public sector by means of tender processes. This relationship is defined by the nature of the contract and tenure thereof and finding the right fit is not always attainable. The supplier usually displays a profit motive whilst the public sector has a service motive and therefore clashes take place between client and supplier when these relationships are not managed.

- **Management is essential**

The Deloitte and Touché research report also indicated that 62 per cent of respondent companies indicated that outsourcing required more management than they expected. This finding of the research is consistent with the theory, as the outsourced project will require more management capacity and skills.

- **It's not just about cost cutting**

Theory suggests that cost should not be the only motivation behind outsourcing. However, in the public sector, contrary to outsourcing theory, cost reduction is a primary motive.

- **Evaluation of the contract**

Clear objectives and targets by both client and supplier need to be clearly defined. However, in the public sector, the research indicates, that these projects do not have clear objectives and targets. This lack often leads to conflict over services rendered. The study also shows that there is an intention by the public sector to bring outsourced fleet business processes back in-house as a spontaneous reaction to poorly conducted outsourcing contracts.

### 5.3 Conclusion

The analysis of the research, in this chapter, reveals that the results of the findings of the analysis in Chapter 3 is consistent with the theory with key elements of outsourcing theory in both the advantages and disadvantages of outsourcing non-core activities.

According to the Department of Transport, the total annual budget was R7.6 billion for the 2004/05 financial year. The fleet operations expenditure indicated in table 5.12 represents approximately 53% of the National Department of Transport's budget. The total population of vehicles in South Africa, as recorded on NATIS, is 7 535 857 vehicles (Department of Transport, 2005).

The analysis in this chapter indicates that fleet management has a significant impact in the public sector through the cost of fleet operations. Fleet costs are approximately R4.7 billion (Table 5.12) and represents more than half the total national transport budget although fleet it is not a core service of government. This study can therefore make a contribution to promoting fleet cost efficiency. These efficiencies can translate into cost savings that can be reallocated to essential public services like education and health and essential government utilities.

There are various factors limiting optimal fleet management in the public sector, but these limiting factors can be mitigated through effective controls and strategic management tools like the balance scorecard.

Chapter six will provide conclusions and recommendations drawn from the research study in chapter 2, 3 and 5. Recommendations will be presented on areas that require strategic intervention to answer the research problem. Conclusions will be presented systematically referring to the research objective and research problem and recommendations for future research will be based on findings and conclusions of this study.

# Chapter 6

## 6.1 Introduction

This chapter presents conclusions and recommendations based on an evaluation of the information in Chapters 2, 3 and 5 in terms of the research methodology defined in chapter 4. The evaluation within this chapter will lead to recommendations on an optimal fleet management solution for the public sector.

The study focused on addressing the research objectives established in chapter 1. The analysis fleet management in national government was conducted in chapter 3 and 5 of the study. In chapter 5, fleet management performance of national government was evaluated against key fleet management principles that were established through a questionnaire (Annexure 1). The questionnaire was based on key fleet management principles to answer the research problem. Recommendations will provide a strategic business model to maximise fleet management in national government and answer the research problem.

## 6.2 Conclusion and summary on keys issues of the study

This study provided a holistic approach to the analysis of fleet management taking into account fleet management variables, best practice models established in chapter 2 and benchmarked against case studies in chapter 3. Chapter 4 defined the approach of the research design of the study that systematically provided a framework to determine the impact and status quo of fleet management delivery of core activities in national government in chapter 5. These core activities are health, education, safety and security and other services offered by government.

The introduction to the study established that the core business of government is to provide public goods and services and not private goods such as fleet management. The formulation of the problem statement, should fleet management be outsourced in the public sector, was based on the structural and policy changes in government and its effect on fleet management in the public sector. Key objectives of this study were determined to answer the research problem and to establish a strategic management model for fleet management. A key limitation of this study was little or no literature and theory on fleet management, therefore outsourcing, business process outsourcing, supply chain and strategic management theory and models were adapted to the fleet management problem.

Chapter 2 provided a detailed literature survey on the balance scorecard model, outsourcing and fleet management theories to obtain solutions and strategies to answer the fleet management problem. The core fleet management components (critical factors) were elevated during the study of various sources of literature and the importance and relevance of these theoretical components were verified by the survey in national government. The questionnaire was based on these key fleet management components to evaluate and analyse fleet management in the public sector in chapter 5. These key fleet management components are:

- ❖ fleet distribution analysis;
- ❖ analysis of vehicles ageing;
- ❖ current fleet utilisation;
- ❖ geographic spread of vehicles;
- ❖ fleet management capacity of departments;
- ❖ future fleet utilisation requirements;
- ❖ future fleet specification requirements;
- ❖ future service level requirements;
- ❖ cost benefit analysis of fleet options; and
- ❖ fuel administration.

It can be concluded that the value proposition of the literature survey, on outsourcing, fleet management and balance scorecard strategic business models, does not lie in its complexity, but rather in its simplicity as it provides a basis for the analysis that allows the assessment of the fleet management in national government, in a structured framework thereby exposing key dynamics of fleet management in the public sector. The study also facilitates a comprehension of the status of fleet management in the public sector in chapter 3 and 5. Finally, taking cognisance of fleet management in its current context and applying the correct business models, will lead to improvement fleet management in the public sector and can also present favourable business opportunities for the private fleet management sector if key components of fleet management are applied correctly.

Although the overall strategic model remains a theoretical framework, it provides a structured process to be followed for the management of fleet in the public sector. Moreover, the key components of fleet management established in chapter 2, are robust enough to allow for practical analysis and application in chapter 3 and 5.

Case studies outlined in chapter 3 provided a basis to explain fleet business in government in order to establish a context for the importance of fleet management through a historical perspective with emphasis on key role players. Furthermore the case studies provided a benchmark for key fleet management components and data for a cost benefit analysis in chapter 5.

Benchmarking fleet management in the public sector in; the Department of Transport, KwaZulu-Natal (KZN), Department of Transport, Northern Cape, Department of Transport, Eastern Cape and City of Johannesburg provided a status quo and illustrated how government conducted fleet management. These case studies also provided a valuable test of fleet management models against theory for relevance and application of theory.

Chapter 4 detailed the research design and methodology which forms a structured systemically approach to this study. A qualitative data collection approach was followed to collect both secondary and primary data. The collecting of primary data on fleet management was undertaken by means of a semi-structured questionnaire based on an investigation of events through case studies in chapter 2 and 3, theories, models relating to the topic in chapter 2. Secondary data sources consulted are listed in the bibliography and is constituted of relevant government reports on the practical application of fleet management, textbooks by relevant authors provided the academic and strategic models, academic journals for insight into outsourcing and strategic management models and internet information for update on the current status of the topic being researched.

Finally, the research approach was designed to yield results, conclusion and recommendations in chapter 5 and 6. The conclusion and recommendations in chapter 6 was limited to the parameters of the problem statement and data collated during the research process in chapter 5.

### **6.3 Conclusion and recommendation per data findings**

The research objective of analysis of fleet management in the public sector was undertaken in national government (33 national departments) against fleet management principles to establish a strategic management model for fleet management in the public sector. An empirical investigation was performed using a questionnaire and triangulated with a cost benefit analysis and pattern matching of fleet management and outsourcing concepts. Results and recommendations from the data analysis in chapter 5 are as follows:



### **6.3.1 Fleet Distribution analysis**

Analysis of the data extracted from question 8 of Annexure 1, indicates that majority of vehicles (43%) are sourced through provincial government garages. A number of departments obtain vehicles from more than one source. The 8 departments with fleet sizes in excess of 300 vehicles account for 94.5% of the total number of vehicles. 20 of the 28 departments have a small fleet of vehicles. 30% of the total fleet is sourced by the department and 27% of the total fleet is sourced via an outsource service provider. Only 27% of the total fleet is insured for all risks (question 22, Annexure 1. 73% of department administer accidents through Government garages ( question 22 and 23, Annexure 1).

Due to the fleet distribution analysis, it can be concluded that 94.5% of the vehicles are located in 8 department can add value through economies of scale and consolidation of key assets. 91% of the fleet comprises light motor vehicles. 8% of the fleet comprises heavy motor vehicles. Only 1% of the fleet comprises specialised vehicles. 8801 vehicles and types of vehicles imply that any private sector service provider can acquire the public sector's commercially viable fleet function at the right price.

Outsourcing is recommended as the distribution and numbers of vehicles justify a fleet outsourcing solution that can be measured to determine the extent of value add to an organization (Heywood, 2001). Furthermore, as suggested by DiRomualdo and Gurbaxani, 1998 it is recommended that the public sector use outsourcing in order to satisfy any one or more of three strategic intents, namely strategic improvement (cost reduction and enhancement of efficiency) thus improving the public sector's fleet management performance through leveraging its assets. Although the strategic literature suggests that the reason for outsourcing has changed from primarily cost disciplines to strategic re-positioning, core competence enhancement, greater service integration and/or higher value creation (Quinn, 1999), the data analysis provides compelling evidence for outsourcing to reduce cost.

### **6.3.2 Analysis of vehicles ageing**

In terms of acceptable replacement cycles criteria specified by motor manufacturers, the public sector had 35% of light delivery vehicles and 50% of heavy vehicles overdue for replacement. It was established in response to question 14 and 24 of Annexure 1, that vehicles are not replaced or disposed of at the end of the life span of a vehicle due to lack of adequate budget. According to Dolce 1998, vehicles not disposed at the end of the life span will cost the organisation more beyond its recommended economic life span in terms of depreciation and operating costs. Therefore, the data

interpretation indicates that the public sector cannot afford to replace its fleet due to lack of funding within the appropriate vehicle life cycle.

Therefore, to avoid undue depreciation and operating costs of vehicles beyond its replacement cycles, an outsourcing solution is recommended.

### **6.3.3 Current fleet utilisation**

26% of the government vehicles travel less than 1000 kilometres per month and are therefore under-utilised in comparison to norms and standards of optimal vehicle utilisation as specified by motor manufactures (Vehicles user manuals, example Toyota “Book of Life”, 2005). The average utilisation per vehicle is 1578 kilometres per month that is below the optimal vehicle utilisation of 2500 kilometres per month as recommended by accredited motor manufacturers. This implies that an outsourcing solution presents an opportunity to reduce the fleet (assets) by 26% to 30% thereby reducing fleet cost and increasing fleet utilisation.

Reducing the public sector fleet makes it easier and more efficient to enter into value chains rather than maintain in-house ownership (Kakabadse and Kakabadse, 1999). Particular research findings (Blaxill and Hout, 1991; Chalos, 1994; Teng, 1995) suggest that the key strategic factors that influence a firm's decision to outsource functions centers around cost, technological innovation and knowledge enhancement considerations for an optimal fleet management solution. Outsourcing of the fleet function is recommended as the current fleet utilization and in-house performance falls below the performance of external suppliers (Blaxill and Hout, 1991; Chalos, 1994). Quinn, 1999 suggests that, unless the company develops best-in-world capabilities, including transaction cost disciplines, the company should purchase the fleet management service from service providers who have best-in-world skills, in order achieve competitive edge and cost savings.

### **6.3.4 Geographic spread of vehicles**

Conclusion of the analysis of geographic distribution of vehicles confirms that the majority of vehicles are located in major centres and that very few vehicles are located in rural areas. This implies that an outsourced solution can be cost effective in urban areas and a comprehensive fleet services can be rendered in rural areas through innovative fleet management technology and services that currently reside with the private sector and will not be cost effective for the public sector to acquire. The fleet geographic spread will also define the outsourced service offering, price, ability and availability of fleet in these identified areas.

Based on the geographic spread of vehicles, an outsourcing fleet solution is more beneficial to the public sector than the public sector attempting building internal capacity to render the same service a private company can render with current and available resources.

### **6.3.5 Fleet management capacity of departments**

Based on the analysis of fleet management capacity in the public sector, it is reasonable to conclude that the lack of adequate fleet management capacity is a problem in all departments. The lack of fleet management capacity is amplified by the response to question 19 of Annexure 1 that shows 97% of departments do not have adequate fleet management controls. 73% of departments relied on Wesbank First Auto whilst 27% of departments rely on Imperial Fleet Services for fleet management controls and exception reports as extracted from question 20 and 21, Annexure 1.

In terms of the capability assessment map, Figure 3 on page 18 and the benchmarking study in chapter 3, it can be concluded that based on the data assessment in the public sector, fleet management capabilities is below the required productivity rate according to cost and quality available in the private sector. The map determines the key fleet capability gaps that affect cost efficiency in government. Therefore, based on the capability assessment map, it is recommended that outsourcing should be a preferred option to increase fleet capability at lower cost.

### **6.3.6 Future fleet utilisation requirements**

27% or 9 of the total number of departments in the sample population were unable to adequately predict future vehicle utilisation requirements. This implies, that the department are unable to measure fleet utilisation, and therefore unable to manage it as suggested by Norton and Kaplan, 1996. According to Dolce, fleet utilisation is a fundamental principle of effective fleet management and must be managed. Furthermore, it can be concluded that fleet management fleet utilisation is an important variable that must be measured when performing a cost benefit analysis to achieve an optimal fleet management solution.

Since 73% of the departments are unable to predict their fleet requirements, it is recommended that the fleet requirements be outsourced on a basis of a flexible provision of fleet with the opportunity to increase or decrease fleet requirements after a period of assessment, no less than one year, to predict fleet utilisation patterns and optimal fleet utilisation.

### **6.3.7 Future fleet specification requirements**

Respondents were in strong agreement with fleet specification requirements therefore, a generic fleet can be set up to service the needs of more than one department. The advantages of fleet standardisation will be increased fleet utilisation and reduced capital requirement to fund fewer vehicles purchases thereby reducing the overall cost which reduces the unit cost per vehicle under the outsourced fleet option. A fleet outsource option is the preferred from a fleet standardisation, reduction and cost point of view.

### **6.3.8 Future service level requirements**

From the survey, it is clear that based on the respondents, fleet managers reached consensus on future fleet service level requirements. These fleet service level requirements are generic and can be standardised under an outsourced option to increase fleet utilisation and reduced capital requirement to fund fewer vehicles purchases to achieve the required cost efficiencies in government fleet management.

### **6.3.9 Cost benefit analysis of fleet options**

As suggested by McIvor, 2000 cost analysis of the outsourcing decision is essential, therefore a cost benefit analysis was undertaken via a survey. The survey focused on measuring all the important costs associated with alternatives mechanisms to perform the fleet management function taking into account department's budgets, fleet sizes of other government organizations and available fleet management options available in the market.

The fleet activity can be performed internally or externally (outsourced). The cost benefit analysis yielded alternative fleet options. The consolidated cost benefit analysis indicates that 21 (75%) department are unable to determine an appropriate fleet management budget and therefore cannot afford **any** fleet management option being public sector, government garage or the outsourced option. 80% of departments confirmed that the access to adequate fleet management budgets was a fundamental problem which lead to ineffective fleet management in the public sector.

It can be concluded that vehicle fleets have inadequate capital expenditure budgets due to the following factors listed below.

- Fleet sizes have been based on historic fleet sizes rather than on zero-based estimates of the number of vehicles required for effective service delivery.
- The low levels of utilisation, high levels of abuse and inability to account for vehicles, do not support re-capitalisation of the fleet.
- Fleet operations, in most cases, are not financially ring-fenced from other government operations and, as such, in times of urgent needs for funding in other areas, fleet budgets may be reallocated.
- The tariffs charged by government garages have never been indexed to inflation. Charges and budgets have as such been grossly understated.
- Many government garages have historically been overstaffed. The outsourcing of maintenance and maintenance management services without reducing staffing levels has exacerbated this position.
- Fleets compete with other areas for capital budgets. In many instances, these other areas may be regarded as being of more critical importance than fleet, for example, funding of road infrastructure and funding of hospitals. The classification of fleets as non-core or ancillary may also result in inadequate budgeting.

Since the affordability test (cost benefit analysis) was not conclusive in the determination of an appropriate fleet management strategy, a benchmarking exercise in other public sector organizations was undertaken. The benchmarking analysis, in table 5.12 and chapter 3, suggest that the outsourced option will provide the lowest total cost with maximum benefits. Therefore, the outsourced option the most feasible alternative to deliver the fleet business process effectively. Thus the argument of Morley, 1996 is confirmed that cost calculations, in most outsourcing projects do not produce a clear marginal decision in either direction.

The alternative fleet option recommended, by the analysis, is the outsourced option based on the benefits that the option provides.

### **6.3.10 Fuel administration**

Fuel procurement and administration is based on a kilometre travelled. The cost comparison exercise was conducted to determine the average fuel cost per kilometre and level of efficiency. The survey indicated that that 73% of departments procure fuel and toll administrative services from Wesbank First Auto whilst the remaining 27% receive these services from Imperial Fleet Services. This implies that the fuel administration is already outsourced to the private sector with perceived levels of fuel fraud. Based on the average fuel cost per kilometre determined in the analysis of the survey

data, the outsourced option is the most cost effective option as it includes total costs and risk transfer to the private sector to negate the effects of fuel fraud in government.

#### **6.4 Area of further study**

The following have been identified as possible areas of future research:

- development of fleet management theory and models as there is very little theory on the subject available;
- why the public sector outsource inefficiencies;
- international benchmarking of fleet management in the public/private sector;
- setting national standards to guide public sector on fleet outsourcing projects; and development or adaptation of activity-based costing models for fleet management solutions for both public and private sector.

#### **6.5 Recommendation of an optimal fleet management solution**

The data and information gathered on the research topic and problem statement evidently recommends that **fleet management should be outsourced in the public sector** with the following additional strategic management interventions to achieve an optimal fleet management solution.

The key strategic intervention recommended in order to improve efficiency in government, is to change their set ways and existing paradigms by relinquishing control and outsourcing fleet management to the private sector. It will become necessary to transform the management and administrative teams in order to achieve effective fleet management through the implementation of a balance score card to measure and manage fleet performance.

##### **6.5.1 The fleet management balance scorecard**

As suggested by Norton and Kaplan, 2004 the strategy map and balance scorecard provided a framework for measuring value creation process of fleet management in the public sector to determine if the state was on the road to sustainable results. The strategy map framework on fleet management was supported by an adaptation of the balance scorecard to facilitate the assessment process.

The following strategy map is recommended in development of a long-term strategic framework that will guide fleet management in the public sector.

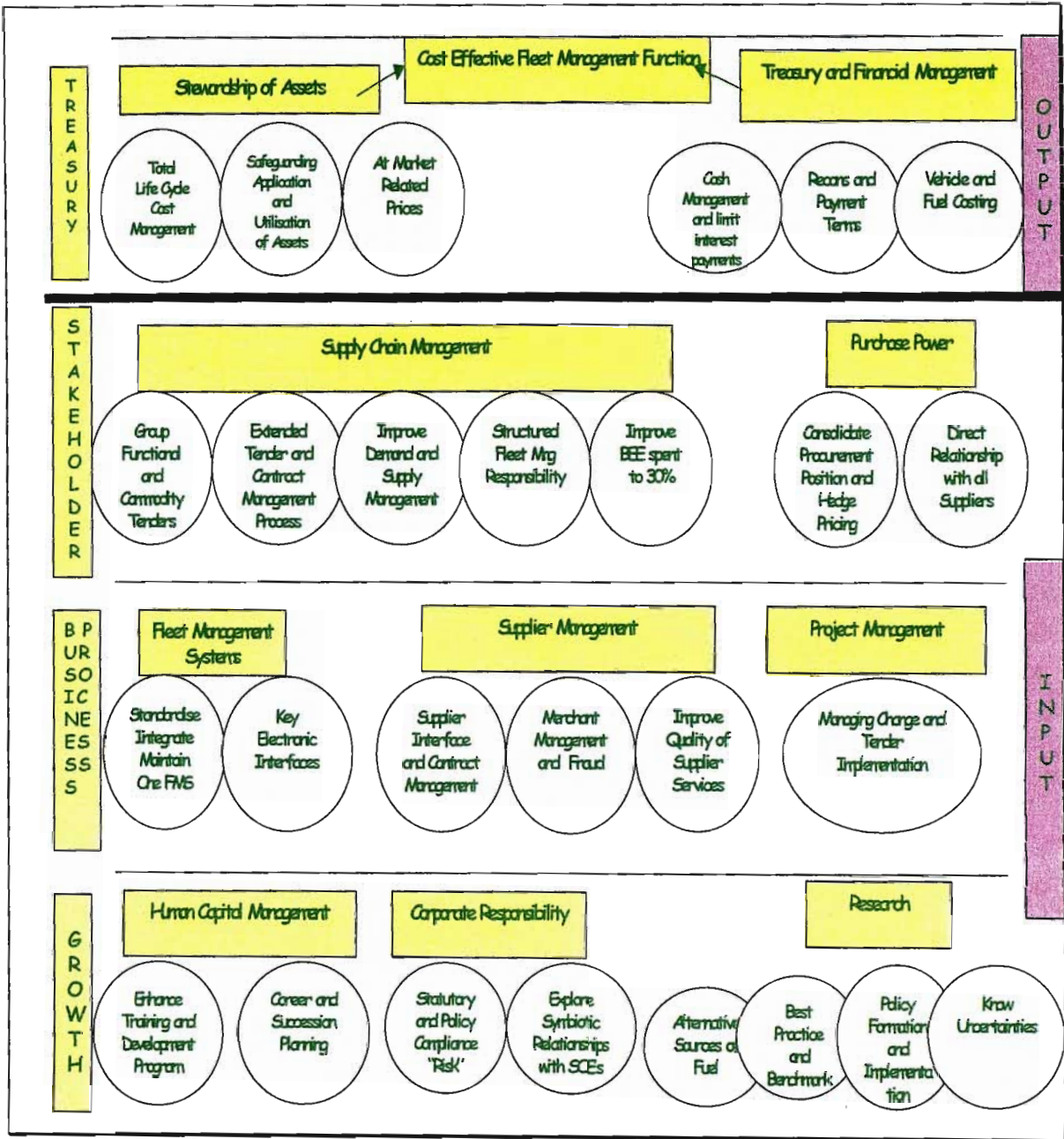


Figure 17: Strategy map of fleet management in the public sector (Source: Recommendation based on the survey)



## 6.6 Conclusion

The evaluation and data analysis, in chapter 5, indicated that fleet management has a significant impact in the public sector through the cost of fleet operations and should be managed effectively. Effective management can translate into cost savings that can be reallocated to essential public services like education and health and essential government utilities. Furthermore, it was concluded from the survey, that fleet management human resource capacity and budget are key factors limiting optimal fleet management in the public sector. These limiting factors can be mitigated through effective controls and implemented of performance management tools (balance scorecard).

The findings of the study indicate that more effective fleet management models exist within the private sector. These models can be exploited by the public sector, within a short time frame, through outsourcing the fleet management function to the private sector. Outsourcing is therefore recommended as a strategic intervention to optimise fleet management in the public sector. It is important to note that optimising only fleet management is most likely to make a significant contribution to the overall business performance if complemented with the implementation of a strategic management intervention that measure and manage performance.

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**FleetAfrica Eastern Cape/ECPG Contract****Analysis of Year One Costs**

		<u>Notes</u>
Vehicle Lease - Fixed Billing	65,557,793	
Vehicle Lease - Over/Under Utilisation	12,241,051	
Adhoc Rental Billing	59,516,057	
Fuel Billing	42,710,361	
Managed Maintenance – Health	<u>11,897,784</u>	
Sub Total	<b>191,923,046</b>	
Less Deductions:	<b>107,092,742</b>	
EMRS - Vehicle Lease, Fuel etc	8,938,228	1
Managed Maintenance – Health	11,897,784	1
Adhoc Rentals - Special Projects	17,070,643	2
Adhoc Rentals - Outside the Province	14,068,143	3
Vehicle Lease - Over/Under Utilisation	12,241,051	4
Fuel Billing - Over/Under Utilisation	3,749,250	4
Cost of Increased Fuel Price	7,127,643	5
Proceeds of Sale of old vehicles	32,000,000	
Total (for comparison)	<u><b>84,830,304</b></u>	
Year 1 Budget per Feasibility Study	<b>130,000,000</b>	
"Inherent" Saving	<u><b>45,169,696</b></u>	

**Notes**

1. The size of the health fleet was unknown at time of the feasibility study, therefore excluded for cost comparison.
2. Short-term rentals for Special Projects (education) are the subject of a separate budget (confirmed by Provincial Treasury) *Only separated since January, therefore understated.*
3. Short-term rentals Outside the Province are the subject of a separate budget (confirmed by Prov Treasury).
4. The feasibility study was based on 2000km per vehicle per month, this represents the lease charge for vehicles where the 2000km per month was exceeded. (*utilisation issue*)  
Accordingly the fuel charge is also affected:  

Feasibility study based on utilisation of	52,407,000 kms
actual utilisation	83,650,748
	31,243,748
Weighted Ave FCI of 0.12	3,749,250
5. Feasibility study based on fuel price of R3.50 per litre, actual average R4.15 per litre.

**Figure 18: Analysis of costs of the Eastern Cape fleet outsourcing contract (Source: Eastern Cape Provincial Government, 2005).**

**Annexure 1: Questionnaire for the assessment of fleet management in the public sector**

USER DEPARTMENT: \_\_\_\_\_

NAME: \_\_\_\_\_

1. What are vehicles used for at your department? Provide detail of all functions.

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2. Is your department's vehicles stationed at multiple locations? If so provide details.

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3. What is the total size of your department's current vehicle fleet?

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4. What are the categories of vehicles currently in use by your department? (Indicate by crossing applicable boxes)

- Motorcycles
- Sedans
- LDVs
- Panel Vans (1 to 3 ton)
- Medium and Heavy
- Commercial Trucks
- Articulated trucks
- Ambulances
- Fire Engines
- Rescue Vehicles
- Prison Trucks
- Laundry Vans/Trucks
- Tip Trucks
- Water Tankers
- Buses
- Other ... provide detail below

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-----  
-----



5. Provide year model per vehicle and per category indicated in question 4.

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6. What is your department's basis for allocation of vehicles to users? (Permanently allocated to individuals, pool vehicles allocated to users as required or a combination thereof). Indicate estimated split for total fleet.

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 -----  
 -----  
 -----

7. What would the average monthly utilisation level of vehicles be by vehicle category?

<b>Vehicle Category</b>	<b>Average Utilisation per month (kms)</b>
Motorcycles	
Sedans	
LDVs	
Panel Vans (1 to 3 ton)	
Medium and Heavy Commercial Trucks	
Articulated trucks	
Ambulances	
Fire Engines	
Rescue Vehicles	
Prison Trucks	
Laundry Vans/Trucks	
Tip Trucks	
Water Tankers	
Busses	
Other ...	

8. How does your department acquire vehicles (purchase through Provincial Government Garages/purchase by own department)?

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 -----  
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9. If your department purchases vehicles why was the option of purchasing vehicles through the Provincial Government Garage not used?

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10. What is your department's process for acquiring additional/new vehicles?

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11. Does your department hire vehicles from private sector companies such as Avis, Budget, Imperial, etc? If so, please give an indication on how frequently and whether for short-term or long-term needs.

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-----

12. Please indicate where your fleet currently operates.

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13. Does your department have a policy for the replacement of vehicles? If so, provide details on the replacement criteria used.

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14. Does your department remove vehicles from service when required? If so, provide details on the entire process for scrapping or disposal.

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15. Does your department procure fuel and pay for toll fees through Wesbank First Auto?

- yes
- no

16. How does your department procure vehicle repairs and maintenance? Provide detail on the entire process, including any authorisation procedures.

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-----  
-----  
-----

17. What is the average time that a vehicle is unavailable due to repairs and maintenance?

- less than a day
- more than 24 hours
- 2 days
- 3 days

18. What is the process for assisting drivers and recovering vehicles that have broken down at roadsides?

- local towing companies
- Wesbank First Auto
- Department processes
- no process

19. What controls are there in your department for the administration of vehicles?

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20. Is there a system for recording vehicle fleet related information i.e. management information system for recording vehicle utilisation, fuel usage, maintenance and repairs per vehicle?

- Imperial IT system
- Wesbank First Auto
- Department IT system
- no system

116026

21. Are management and exception reports generated by your management information system? If so, provide details of the types of reports available and the review process.

- yes
- if no, please provide details below.

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-----  
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22. Does your department have any form of insurance cover for your vehicle fleet?

- yes
- if no, please provide details below.

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-----  
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23. What are your department's procedures for managing accidents? (reporting, investigation, repairs and recovery of costs)

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-----

24. Are vehicles written-off in accidents replaced?

- yes
- if no, please provide details below.

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25. Is there a perceived level of fuel fraud occurring? Who is looking into this problem, and what procedures are being followed?

- yes
- if no, please provide details below.

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26. Is there any form of regular or periodic training provided to users.

- Managing vehicles and vehicle related expenses
- Driver training
- Technical staff training (mechanics, artisans, etc)
- Other vehicle related training

If so, provide details below.

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-----

27. What is your departments' annual budget for vehicle related costs including capital replacement and operating costs? Provide details for the budget period.

-----  
-----  
-----

28. What are the major problem areas experienced with the current fleet that need to be addressed?

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29. Should new vehicles be made available to your Department, would it be possible to reduce the number of vehicles required by your department?

- yes
- if no, please provide details below.

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-----

30. Should your department require an additional vehicle, how long is your department prepared to wait (lead time) for the delivery of the new vehicle? (Tick appropriate box)

- 1 month
- 2 months
- 3 months
- other – specify \_\_\_\_\_

31. When does your department requires a vehicle on a short-term arrangement (from Avis, Budget or Imperial), the vehicle must be made available within (Tick appropriate box):

- 2 hours
- 6 hours
- 12 hours
- other – specify \_\_\_\_\_

32. What are your department's preferred replacement criteria (age and kilometres) for?

Vehicle Category	Earlier of	
	Years	Kilometres
Sedans and light commercial vehicles		
Medium and heavy commercial vehicle		
Specialised vehicles		

Example: Sedans – earlier of 5 years or 150 000 kilometres

33. What would be the minimum specification for new vehicles for the following vehicle categories?

Vehicle Category	Colour	Make	Engine Size	Air conditioner	Radio Tape
Sedans					
LDVs					
LDVs 4x4					
Minibuses					
Panelvans					

Example:

Vehicle Category	Colour	Make	Engine Size	Aircon	Radio Tape
Sedans	White	Toyota	1300	Yes	Yes

34. Which of the following additional features are required as minimum specifications for new vehicles? (Tick appropriate boxes)

- Vehicle tracking
- On-board computers
- Driver identification (Tagging)
- Other – specify \_\_\_\_\_

35. What would the average monthly utilisation level by vehicle category be should new vehicles be made available?

<b>Vehicle Category</b>	<b>Average Utilisation per month (kms)</b>
Motorcycles	
Sedans	
LDVs	
Panel Vans (1 to 3 ton)	
Medium and Heavy	
Commercial Trucks	
Articulated trucks	
Ambulances	
Fire Engines	
Rescue Vehicles	
Prison Trucks	
Laundry Vans/Trucks	
Tip Trucks	
Water Tankers	
Buses	
Other ...	

36. What is your department's preferred option for the procurement of fuel? (Tick appropriate box)

- Retail service stations via a card based system (e.g. First Auto)
- Retail service stations using Vehicle Identification Technology (card-less system offering reduced risk of fuel fraud)
- Home sites
- Other – provide details

## **Annexure 2: Detailed profiles of fleet management companies in South Africa**



# AFS Group

Established In South Africa: August 1995

AFS has offices in Johannesburg, Durban and Cape Town, Lesotho and East London

## Key personnel

- David Froman [CA(SA)] – Chief Executive Officer
- Ian Pears (B.Bus Sc. LLB) – Managing Director
- John Wilkinson (B.Com.hon.IS) – Technical Director
- Nick Gouws [CA(SA)] – Sales Director
- Colin McKenzie – Operational Director
- Tony Christelis - Financial Director

## Products:

### eFuel

eFuel is a card free fuel control solution based on technology that is regarded as the ultimate in fuel control convenience. eFuel is the brand name used for the automated refuelling solution implemented using multiplex oil company retail sites, the banking infrastructure and Fuelomat technology

### FuelOmat

The Fuelomat product enables refuelling at a home base fuel station without cash, cards or logbooks. Information is transferred automatically by data transmission from the car to the Fuelomat controller during the refuelling process

### Autogate

The AutoGate System automatically controls and monitors vehicle entries and exits, identifies authorised vehicles, reports date and time of entries/exits, and provides odometer readings at a gate or security boom.

### **Tanker Truck Control Unit**

The Tanker Truck Control Unit was developed for instances in which heavy or stationary equipment needs to be refuelled at the site by a fuel tanker truck. In this case, the station controller that is usually installed at the refuelling station has been miniaturised and modified to fit onto a tanker truck

### **TranMan Fleet Management System**

The TRANMAN Fleet Management software system controls all aspects of fleet management, accommodating mixed vehicle fleets and plant. It is designed to control multiple internal workshops and stores, as well as external maintenance providers.

### **Veeder-Root Tank Gauging Equipment**

Veeder-Root are the leading international suppliers of tank gauges, with over 280,000 tanks monitored worldwide. They have an international supply agreement with leading oil companies, and a market share in excess of 60%. AFS Group has the sole Veeder-Root distributorship rights in South Africa.

### **Bureau Service**

AFS Group offers an "off-site" bureau service for full reconciliation of home based refueling stations.

## Daimler Chrysler South Africa P/L

DaimlerChrysler South Africa (DCSA) is wholly owned by DCAG and is one of the largest foreign investments in South Africa.

### Nature Of Business

Automotive passenger cars, commercial vehicles and parts manufacturers, marketers and suppliers.

Sector: Unlisted  
Abbreviation: DAIMLERCHR  
Bankers: Various  
Employees: 4500

### Directors And Management

R Borgenheimer	Finance
G Du Plessis	Commercial Vehicles
J Evertse	Human Resources
C Kopke	Chairman
H Niefer	Manufacturing
F van Olst	Sales and Marketing

### Familiar Brand Names

Colt
Mitsubishi
Pajero
Mercedes Benz
Freightliner
Jeep
Chrysler

## **Subsidiaries and Associated Companies**

Adepart P/L
DaimlerChrysler Capital Services P/L
DaimlerChrysler SA Manufacturing P/L
DaimlerChrysler Services SA P/L
DC Aviation P/L
Koppieview Property P/L
MTU South Africa P/L
Sandown Motor Holdings P/L

### **The Key Accounts division of Daimler Chrysler focuses on:**

- Fleet marketing and sales;
- Government marketing and sales;
- Sales to diplomatic corps;
- Sales to disabled persons.

## **debis Fleet Management**

Owned 75% by DaimlerChrysler Services and 25% by Kagiso Ventures Limited, debis Fleet Management is an independent company that provides an extensive range of fleet management services, including full maintenance leasing, pool vehicle administration and an electronic auction network. Debis manages in excess of 80 000 contracts in a wide range of applications (includes Telkom contract).

### **DaimlerChrysler Services**

DaimlerChrysler Services is the financial arm of the company. The services offered include:

Finance and leasing Products ( Vehicle finance to suit your particular needs).

Insurance & Warranty Protection ( Insurance, warranty and maintenance).

# Viamax (Pty) Ltd

## Nature of Business

Transport, warehousing and distribution information and management services.

Sector: Unlisted  
Bankers: The Standard Bank of SA Ltd

## Shareholders

60% Viamax (Pty) Limited
30% Saram Investors (Pty) Limited
10% Viamax Fleet Solutions Share Trust

## Directors & Management

C Mabaso	Managing Director
N Haripersadh	Director
S Ntsaluba	Director
IP Smith	Director

## Subsidiaries & Associated Companies

Agriport
Confreight Cargo Management Centre P/L

H S A Management Systems P/L
KN Viamax Investments P/L
LGA Logistics Consultants P/L
Viamax Distribution P/L
Viamax Fleet Management P/L
Viamax Fleet Solutions P/L

### Products

<b>FML</b>	<b>Operational Lease</b>	<b>Vehicle Short Term Rental</b>
<p>Comprised of:</p> <p>Vehicle Acquisition  Maintenance Management  Accident Management  Driver Assistance  Vehicle Short-term Rental  Accident Management  Finance  Management Reporting  Vehicle Disposal  Fleet Card  Policies and Procedures  On-Rail Vehicle</p>	<p>Comprised of:</p> <p>Vehicle Acquisition  Accident Management  Driver Assistance  Vehicle Short-term Rental  Accident Management  Finance  Management Reporting  Vehicle Disposal  Fleet Card  Policies and Procedures  On-Rail Vehicle  Managed Maintenance (Client pays actual maintenance costs)</p>	<p>Provides Asset management services on the following vehicle range:</p> <p>Sedans  LDV's  Minibuses  Light, medium and heavy trucks  Truck tractors  Trailers  Forklifts  Reach stackers  Buses  Motorcycles  Helicopters  Caravans  Specialised vehicles  Road-rail services</p>

# Value Group Ltd

## Nature of Business

A holding company whose subsidiaries provide a comprehensive range of transport and logistical distribution services nationwide.

Sector: Rail road and Freight  
Bankers: First Commerce and Nedbank Ltd  
Employees: 3500

## History:

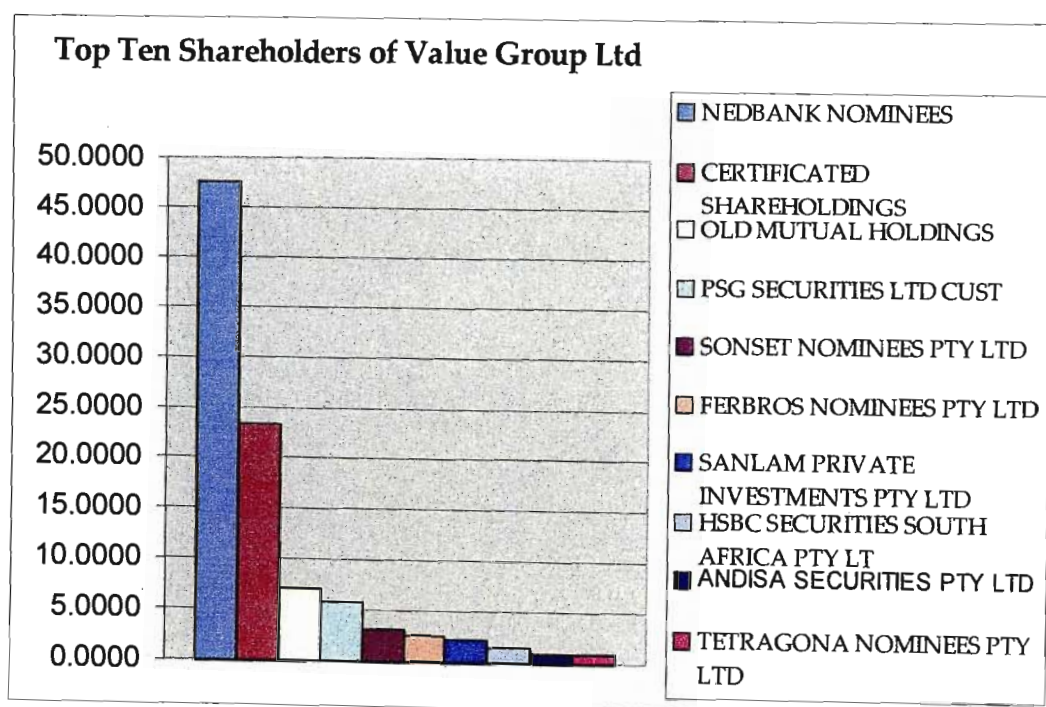
- Founded in 1981 by CEO Steven Gottschalk
- Listed in 1998 on the JSE (transport sector)
- Purchased Freightpak on 1 March 1999
- Purchased Rent-a-Bakkie on 26 Aug 2000
- Purchased Fleetrent and Fridgefleet on 1 March 2001
- Leading supplier of merchandise transport, warehousing, distribution and logistics
- Operates throughout the Republic of South Africa
- Employs +/- 1500 people
- Rated leader in 3rd party logistics - Barnard Jacobs Mellet - 1999
- Operating 17 depots, warehouses and sorting facilities strategically positioned throughout the country
- In-house Nissan dealership
- Materials handling division
- 7 PL solution as from 2001



## Shareholders

NEDBANK NOMINEES	47.6028	JUSPOINT NOMINEES	0.1693
CERTIFICATED SHAREHOLDINGS	23.2349	SA STOCKBROKERS NOMINEES PTY LTD	0.1406
OLD MUTUAL HOLDINGS	6.9993	COMPUTERSHARE NOMINEES (PTY) LTD	0.1232
PSG SECURITIES LTD CUST	5.6336	NIB SECS IPS NOMINEES (CONT BROKER)	0.0788
SONSET NOMINEES PTY LTD	3.0992	CADIZ NOMINEES PTY LIMITED	0.0780
FERBROS NOMINEES PTY LTD	2.5296	FIRST NATIONAL NOMINEES PTY LTD	0.0619
SANLAM PRIVATE INVESTMENTS PTY LTD	2.2770	DWM SECURITIES PTY LTD CUST	0.0580
HSBC SECURITIES SOUTH AFRICA PTY LT	1.4999	ABSA STOCKBROKERS PTY LTD	0.0501
ANDISA SECURITIES PTY LTD	1.0002	JAN SILVIS NOMINEES PTY LTD	0.0490
TETRAGONA NOMINEES PTY LTD	0.9627	BRERETON INVESTMENTS PTY LTD	0.0482
SCMB CUSTODY ACCOUNT	0.8576	FUSION NOMINEES PTY LTD	0.0448
STOCKSHARE NOMINEES PTY LTD	0.5376	RINRIC NOMINEES PTY LTD	0.0319
B N S NOMINEES PTY LTD	0.4720	BARMONT NOMINEES PTY LTD	0.0270
ELLERINE BROTHERS PTY LTD	0.4665	S M K GENOMINEERDES EDMS BPK	0.0145
PRISM NOMINEES PROPRIETARY LTD	0.3903	VAN EEDEN MR DANIE	0.0120
GARDENVIEW NOMINEES PTY LTD	0.3513	PEREGRINE NOMINEES PTY LTD	0.0000
TRADEK BALDERSON NOMINEES PTY LTD	0.3309	CHALKTON NOMINEE COMPANY PTY LTD	0.0000
LAVANREN NOMINEES PTY LTD	0.3138		
ABSA NOMINEES PTY LTD	0.2390		
SHAP ARON NOMINEES PTY LTD	0.1744		

## Top Ten Shareholders



## Directors and Management

SD Gottschalk	Chief Executive Officer
DC Marais	Chief Executive Officer: Deputy
CD Stein	Chairman
BE Goldie	Executive Director
CL Slack	Financial Director
GJ Igesund	Executive Director
IM Groves	Non Executive Director
NM Phosa	Executive Director

## Brand names

Fridge Fleet
Rent-A- Bakkie
Value Truck Rental
Value Equipment
R&C Express Freight

## Subsidiaries, Associates and Investments

The Adventure Bus P/L
Freightpak P/L
Lipchick Rand P/L
Topless Tours P/L
Value Group Properties P/L
Value Logistics P/L
Value truck Rental (Isando)P/L
Value truck Rental P/L

<b>Product</b>	<b>Description</b>
Truck Rental	(Includes options of FML, specialised vehicles; Refrigerated vehicles.)
Freight Options	
Materials Handling Equipment	Short/long term rentals, FML
Warehousing	
7PL Solutions	Consists of 4PL consulting, IT analysis, strategic planning, bar coding etc
<b>Value Added Products</b>	
Customer care line	
Logistics Liason	
CAPEX /OPEX solution studies	
Car Rental	For emergency situations such as breakdown or theft
Chauffer Services	

# Unitrans

## Nature Of Business

Unitrans is a diversified transport, distribution and logistics group active in freight and passenger transport, warehousing, distribution and logistics services, express delivery and courier services, vehicle retailing, fleet management, vehicle leasing, financing and insurance, and car rental.

## Unitrans Organisation

<b>Unitrans Freight</b> <ul style="list-style-type: none"><li>• Commercial</li><li>• Fuel and Chemical</li><li>• Sugar</li></ul>
<b>Unitrans Passenger</b> <ul style="list-style-type: none"><li>• Greyhound</li><li>• Mega Coach</li><li>• Mega Bus</li><li>• Mega Tourer</li></ul>
<b>Unitrans Express Deliveries</b> <ul style="list-style-type: none"><li>• Unitrans Express Deliveries Authorised service provider for (UPS United Parcel Service Inc.)</li></ul>
<b>UPS Logistics SA</b> <ul style="list-style-type: none"><li>• Fourth party logistics services, Supply chain solutions</li></ul>
<b>Roadway Logistics</b> <ul style="list-style-type: none"><li>• Transport and distribution services for household goods industry</li></ul>
<b>Unitrans Motors</b>

- Motor Retail
- Financial Services
- Car Rental

### Unitrans Executives

Jo Grové	-	Chief executive
Philip Dieperink	-	Financial director
Alan Young	-	Human resources director
Roger Naisby	-	Director
Fil Morkel		Managing director
Charles Howes		Managing director
Theunis Nel		Managing director
Nico Boshoff	-	Passenger managing director
Steve Keys	-	Motors managing director
Konrad Peter	-	Chief executive, Unitrans Express
Steve Ford	-	Managing director Global Logistics
Jan van der Merwe	-	Managing director Roadway Logistics

### Subsidiaries

#### Subsidiaries (Direct & Not Listed)

AUTOCARE WARRANTY (PTY) LTD	100%
CONTRACT LEASE MANAGEMENT (PTY) LTD	100%
GREYHOUND COACH LINES (PTY) LTD	100%
KLIPSTONE TRANSPORT (PTY) LTD	51%
LESOTHO CARRIERS (PTY) LTD (LESOTHO)	100%
MEGA BUS & COACH (PTY) LTD	100%
UNITRANS BOTSWANA (PTY) LTD (BOTSWANA)	100%
UNITRANS EXPRESS DELIVERIES (PTY) LTD	100%
UNITRANS FINANCE (PTY) LTD	65%
UNITRANS FREIGHT (PTY) LTD	100%
UNITRANS INSURANCE LTD	100%
UNITRANS LESOTHO (PTY) LTD (LESOTHO)	100%
UNITRANS MALAWI LTD (MALAWI)	100%
UNITRANS MOCAMBIQUE LTD (MOCAMBIQUE)	100%
UNITRANS MOTOR ENTERPRISES (PTY) LTD	100%
UNITRANS MOTORS (PTY) LTD	100%
UNITRANS NAMIBIA (PTY) LTD (NAMIBIA)	100%
UNITRANS OFFSHORE LTD	100%
UNITRANS PASSENGER (PTY) LTD	100%
UNITRANS RETAIL SERVICES (PTY) LTD	100%
UNITRANS SERVICES (PTY) LTD	100%

UNITRANS SWAZILAND LTD (SWAZILAND)	100%
UNITRANS TANZANIA (PTY) LTD	100%
UNITRANS ZULULAND (PTY) LTD	100%

#### **Subsidiaries (Indirect & Not Listed)**

UNITRANS FUEL & CHEMICALS (PTY) LTD	100%
UNITRANS OCEAN LOGISTICS (PTY) LTD	100%

#### **Associates**

##### Associates (Not Listed)

ALISA HOLDINGS (PTY) LTD  
ROADWAY LOGISTICS (JOINT VENTURE)  
UPS LOGISTICS GROUP SA (JOINT VENTURE)

#### **Shareholders**

UNITED GENERAL INV (PROPRIETARY) LT	44.6033
CERTIFICATED SHAREHOLDINGS	17.3401
OLD MUTUAL HOLDINGS	8.9826
ANDISA SECURITIES PTY LTD	8.1698
SCMB CUSTODY ACCOUNT	7.4564
NEDBANK NOMINEES	4.1816
UNITRANS LTD SHARE TRUST	2.5753
ABSA NOMINEES PTY LTD	1.9759
HSBC SECURITIES SOUTH AFRICA PTY LT	1.1454
FIRST NATIONAL NOMINEES PTY LTD	1.0188
C M B NOMINEES PTY LTD	0.8683
FERBROS NOMINEES PTY LTD	0.7159
ABSA STOCKBROKERS PTY LTD	0.2916
ELLERINE BROTHERS PTY LTD	0.1460
COMPUTERSHARE NOMINEES (PTY) LTD	0.1081
PSG SECURITIES LTD CUST	0.1023
J R NOMINEES PTY LTD	0.0713
SANLAM PRIVATE INVESTMENTS PTY LTD	0.0641
STOCKSHARE NOMINEES PTY LTD	0.0565
B N S NOMINEES PTY LTD	0.0293
LAVANREN NOMINEES PTY LTD	0.0164
JUSPOINT NOMINEES	0.0138
LIONSAC PTY LTD	0.0117
GARDENVIEW NOMINEES PTY LTD	0.0106

## The Laser Group

### Nature of Business

The company through its subsidiaries is involved in the provision of business-to-business services specialising in logistics, supply chain management, distribution and human resources activities.

Sector: Rail Road and Freight  
Listed: 1986

Bankers: First National Bank of SA Ltd; The Standard Bank of SA Ltd

<b>Shareholders</b>	<b>Percentage(%)</b>
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Menteith Investments Ltd	32.7
Eureka IND Ltd Powerpoint	9.4
Laser Group Ltd	5.5
Old Mutual Small Comp. Fund	4.8
Old Mutual Life Main Account	4.7
BOE Private Bank Ltd	4.4
Haggie Mr A	2.9
Sarvic Trust	2.4
Picardi Holdings Ltd	2.0
Regent Trust Company Ltd W134	1.9
D H K Investments P/L	1.8
Capstan Trustees P/L	1.7
Villa Magna Trust	1.6
Fuller Mr Michael Richard James	1.5
61 Lurgan Road Trust	1.0



### Directors and Management

MR J Fuller	Chief Executive: Group
DH Kaye	Non Executive Director
I Vukic	Non Executive Director
AGW Williamson	Non Executive Director
AS Haggie	Non Executive Director
CE Fairweather	Executive Director
B Mcadam	Chairman
WJ Swain	Non Executive Director
JS Lubner	Consultant

### Brand Names:

Citi Sprint	Salesmark
Contract Accountants	Time freight
Corporate Relocations	Goeier Hoop Vervoer
Dawn Wing Couriers	Laser Search
Docks Shipping	Jupiter Executive Search
Gentia	Jupiter Interim Management
Human Performance Solutions	Laser International Logistics Solutions
Itex	Laser Trans
Mainline Carriers	

### Subsidiaries, Associates and Investments

Contract Accountants	Laser HR Solutions P/L
Corporate Relocations Cape P/L	Laser Logistics P/L
Corporate Relocations South Africa P/L	Laser properties(Kenilworth)
Dawn Wing Johannesburg P/L	Laser Properties(Mbabane)
Dawn Wing Pretoria P/L	Laser Properties P/L
Docks Shipping Company P/L	Laser Properties (Swaziland) P/L
Dolphins Furniture removals & Storage	Laser Removals P/L
FBLC Properties(Central) P/L	LaserTrans P/L
FBLC Properties(North) P/L	Lategan van Lines P/L
Gentia Software(SA) P/L	Mainline Carriers P/L
HR Outsource solutions P/L	Mainrun Refrigeration P/L
Intracom Eiendomme P/L	Salome Mineral Ontwikkelings P/L
Jupiter Interim MNGMNT & Executive Search	Seamo 41 Investments P/L
Laser Freight carriers P/L	Seamo 42 Investments P/L
Seamo Investments 45 P/L	Time Freight Holdings P/L
Virtual Property Developers P/L	

# The Absa Group

## Nature of Business

Absa is a registered controlling company of a number of banks, insurance companies and an investment holding company. The company directs the planning, control and co-ordination of the activities of the group, which provides an extensive range of banking and financial services.

Sector: Banks  
Listed: 1986  
Employees: 35283

## Directors and Management

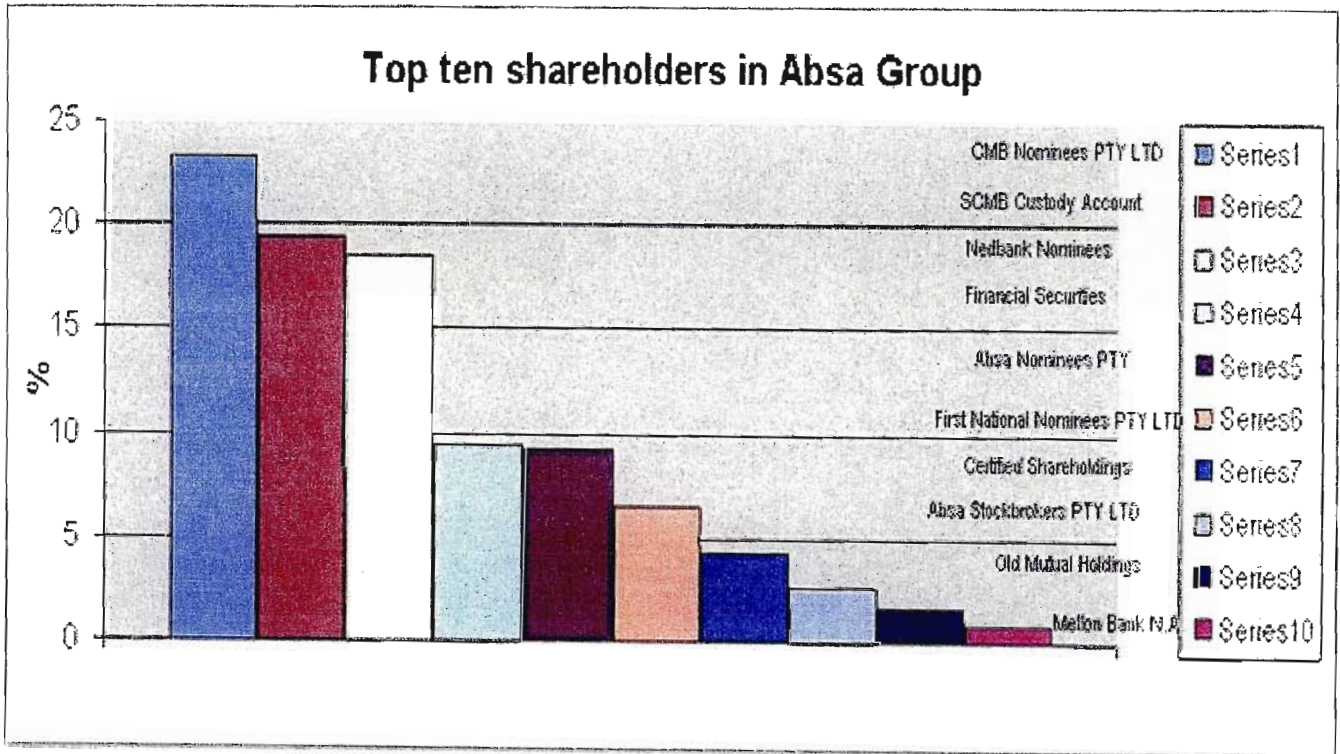
### DIRECTORS AND MANAGEMENT OF THE ABSA GROUP:

ER Bosman	Chief Executive: Group
L Boyd	Non Executive Director
DC Brink	Chairman Deputy
BP Connellan	Non Executive Director
DC Cronje	Non Executive Chairman
AS Du Plessis	Non Executive Director
LN Jonker	Non Executive Director
P Du P Kruger	Non Executive Director
FA Sonn	Non Executive Director
PEI Swartz	Non Executive Director
T van Wyk	Non Executive Director
NB Bam	Director
TMG Sexwale	Non executive Director
FJ Du Toit	Executive Director
G Griffin	Non Executive Director
GR Pardoe	Executive Director

## Subsidiaries

ABSA BANK LTD  
ABSA DEVELOPMENT COMPANY HOLDINGS (PTY) LTD  
ABSA FINANCIAL SERVICES LTD

ABSA MANX HOLDINGS LTD (ISLE OF MAN)  
 ABSA SECURITIES (PTY) LTD  
 ABVEST HOLDINGS (PTY) LTD  
 ALLPAY CONSOLIDATED INVESTMENT HOLDINGS (PTY) LTD  
 BANCO AUSTRAL (MOCAMBIQUE)  
 CONBROS LTD (BVI)  
 CUTFIN (PTY) LTD  
 MLS BANK LTD  
 NATIONAL BANK OF COMMERCE (1997) (TANZANIA)



## **Absa Fleet Management Services**

### Overview

Absa Fleet Management Services act as specialist instalment finance managers for the Absa Group, through provision of several fleet products.

### **Products:**

Full Maintenance Leasing
Operating Rentals
Managed Maintenance
Fleet Card
Sale and Leaseback
Emergency Roadside Service

# Nedcor Group

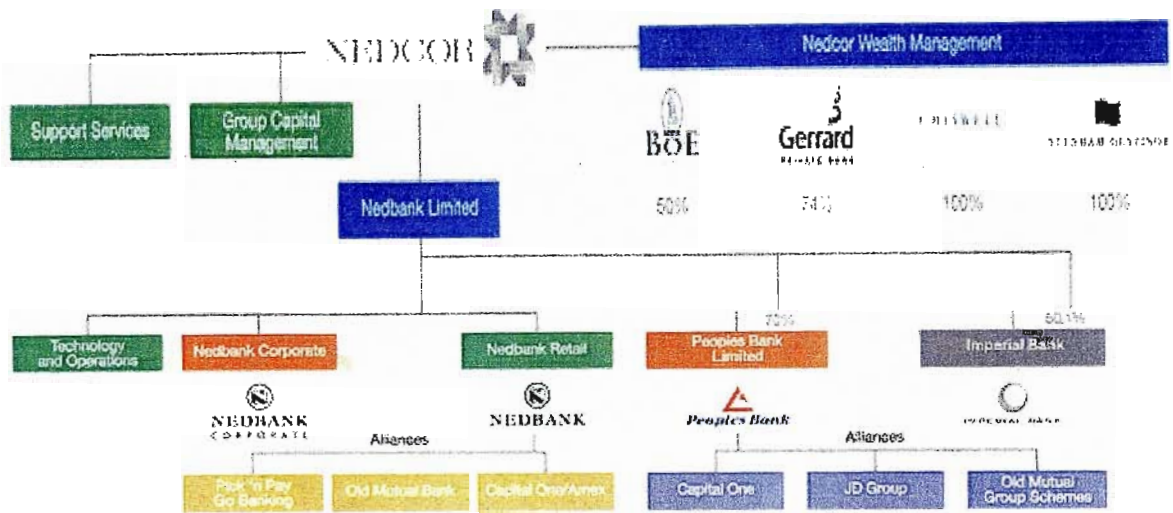
## Nature of Business

A registered bank controlling company that through its subsidiaries, provides a wide range of financial services.

## Directors

CF Liebenberg	Chairman Non executive
PG Joubert	Deputy Chairman Non executive
Prof MM Katz	Vice-chairman Executive
RCM Laubscher	Chief executive (previous)
CJW Ball	Independent non-executive
TA Boardman	Chief executive (new)
Dr IJ Botha	Executive
RG Cottrell	Independent non executive
BE Davison	Independent non-executive
N Dennis	Independent non-executive

## Company Structure



## Subsidiaries

### Subsidiaries (Indirect & Listed)

APLITEC NET1 APPLIED TECHNOLOGY HOLDINGS LTD 25.7

### Subsidiaries (Direct & Not Listed)

CAPE OF GOOD HOPE BANK LTD	100%
GERRARD PRIVATE BANK (JERSEY)	74%
IMPERIAL BANK LTD	50%
NEDBANK LESOTHO LTD	100%
NEDBANK SWAZILAND LTD	67%
NEDCOR ASIA LTD (HONG KONG)	100%
NEDCOR GROUP INSURANCE CO (SA) LTD	100%
NEDCOR GROUP INSURANCE COMPANY LTD	100%
NEDCOR INSURANCE CO LTD	100%
NEDCOR INVESTMENT BANK HOLDINGS LTD	100%
NEDCOR INVESTMENTS LTD	84%
NIB MULTI-MANAGER MANAGEMENT CO LTD	100%
PEOPLES BANK (PTY) LTD	100%
SYFRETS TRUST LTD	92%

### Subsidiaries (Indirect & Not Listed)

ACTURIS LTD	60%
BOE LIFE ASSURANCE COMPANY LTD	100%
BOE LIFE INTERNATIONAL LTD (ISLE OF MAN)	100%
BOE LIFE LTD	100%
FINCOM BANK OF MALAWI LTD	73%
FRANKLIN TEMPLETON ASSET MANAGEMENT CO LTD	100%
NEDBANK AFRICA INVESTMENTS LTD	100%
NEDBANK LTD	100%
NEDCOR INVESMENT BANK LTD	100%
NEDCOR TRADE SERVICES (PTY) LTD	100%
NIB SECURITIES (PTY) LTD	100%
SG INTERNATIONAL LTD (JERSEY)	84%
SYFRETS PARTICIPATION BOND MANAGERS LTD	100%
TANDO SWITZERLAND AG	100%

### Associates

GOOD CAPE LTD	50%
NET1 APPLIED TECHNOLOGY HOLDINGS LTD	25.7%
WESTERN CAPE PROPERTY COMPANY LTD	23%

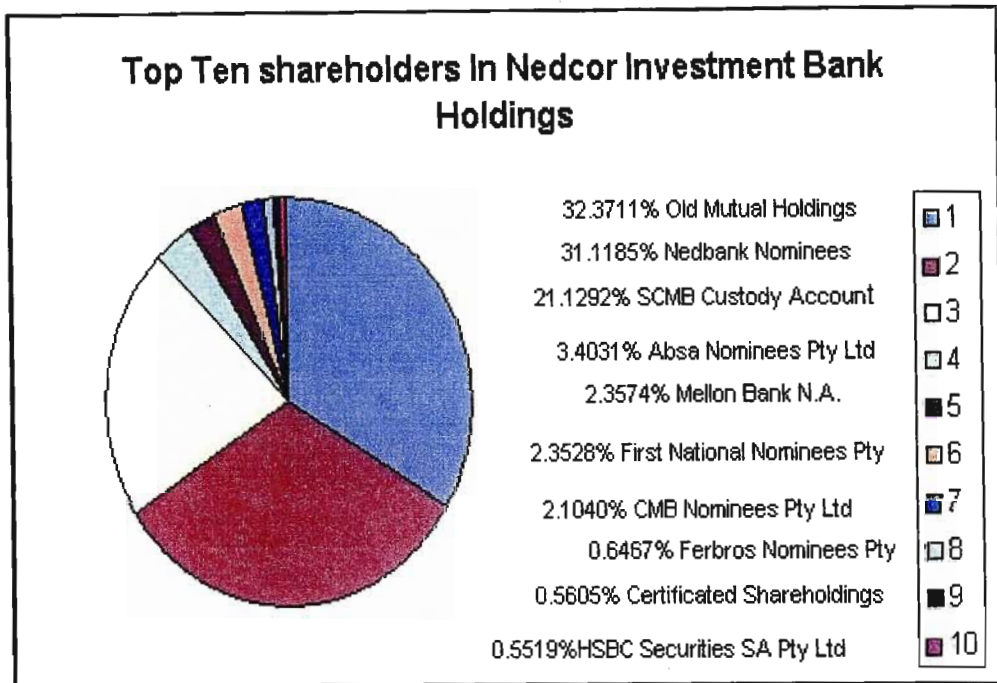
### Associates (Not Listed)

AKA CAPITAL (PTY) LTD	25%
BANQUE SBM MADAGASCAR	20%
BLUE CLOUD INVESTMENTS 40 (PTY) LTD	45%
BUSINESS CONNEXION SOLUTIONS HOLDINGS (PTY) LTD	23.1
CATALYST HOLDINGS (PTY) LTD	30%
COMMERCIAL BANK OF NAMIBIA LTD (NAMIBIA)	47.3%
COROBRIK (PTY) LTD	25%
EVOLVE INTERNET INCUBATOR (PTY) LTD	35%
FUTUREKIDS SA (PTY) LTD	39.6%
HATCH INVESTENTS (MAURITUS) LTD	37.5%
HSBC EQUATOR HOLDINGS PLC	40%
INCLUB PROPERTIES (PTY) LTD	28%
IQ BUSINESS GROUP (PTY) LTD, THE	23.5%
LINBRO VILLAGE (PTY) LTD	50%
LYRIC ROSE (PTY) LTD	25%
MERCHANT BANK OF CENTRAL AFRICA LTD	29.3%
MIRACULUM (PTY) LTD	31.7%
RETAIL INVESTMENT HOLDINGS (PTY) LTD	49%
SANDTON SQUARE PORTION 8 (PTY) LTD	25%
SBM NEDBANK INTERNATIONAL LTD	50%
STATE BANK OF MAURITIUS LTD	20.1%
STEENBERG OFFICE DEVELOPMENT (PTY) LTD	25%



STOWAWAY SELF STORAGE SA (PTY) LTD	50%
SUPERBIA FOUR (PTY) LTD	30%
TOKAI DEVELOPMENTS (PTY) LTD	25%
WIN TWICE PROPERTIES (PTY) LTD	30%

### Top Ten Shareholders of Nedcor Group



### Nedfleet

NedFleet has operated in South Africa since 1989 as a member of the Nedbank Asset Finance Division, and offers a range of finance options, fleet management information systems, fleet card facilities, managed maintenance and related services.

Below is a schematic overview of the division structure of Nedfleet within the Nedcor Group



## Products

Product	Description
NedFleet Card	used for all categories of vehicles. Accommodates toll road transactions, fuel and oil, and the provision of maintenance and repair services at in-house facilities and outside garages.
NedFleet Toll Only Invoice Scrutiny	
Managed Maintenance	
AA Fleet Care	
NedLease	Off-balance sheet financing, Allows you to choose whether or not you wish to be responsible for maintenance
Car Buying Service	Offer countrywide to all Nedbank clients across all market segments, and allows for new and second hand vehicles to be bought
NedWarranty	Financial protection in the event of an unexpected mechanical failure or breakdown. Does not, however, cover the costs of servicing, routine maintenance or accident damage.

# McCarthy Ltd

## General Info

Full Name MCCARTHY  
Short Name MCCARTHY  
Listing Date 27-Oct-2003  
Total Employees 5271

**Banks:** Standard Bank, Absa Bank & First National Bank

## Nature Of Business & History Info

### Nature of Business

McRetail is one of the leading motor retailers in South Africa, and comprises various divisions which market franchised new vehicles with the attendant sales of parts, accessories and service. It has in addition numerous outlets for the sale of used vehicles. Activities include electronic retailing, the short-term rental of passenger vehicles, full maintenance leasing, and auctioneering. Financial, insurance brokering and underwriting services are provided at the numerous dealerships. The Group is also the importer and distributor of a wide range of Yamaha products.

### History

4 January 2002 - Name changed from McCarthy Retail Ltd to McCarthy Ltd.

## Equity Holdings [Associates, Investments etc]

### Associates Info

Description	Perc
FOSTER'S MOTOR GROUP LTD	50%
IMPERIAL MCCARTHY (PTY) LTD	50%
RETAIL APPAREL GROUP LIMITED	%UNKNOWN
SMG AUTO (PMB) (PTY) LTD	30%
UTHINGO MOTORS (PTY) LTD	50%

### Investments Info

Description	Perc
URSUS MAJOR HOLDINGS (PTY) LTD	%UNKNOWN

### Direct Subsidiaries Info

Description	%
KUNENE MOTOR HOLDINGS LTD	60%

MCCARTHY INVESTMENTS LTD	100%
MCCARTHY MAIN HOLDINGS LTD	100%
MCCARTHY ON-LINE (PTY) LTD	65%
MCLIFE ASSURANCE CO LTD	100%
MCPROP PROPERTIES (PTY) LTD	100%
MCSURE LTD	100%

## **Brand Names, Trading Names & Distribution Rights Info**

### **Brand Names Info**

#### **Description**

BURCHMORE'S CAR AUCTIONS  
 CALL-A-CAR  
 CARTORIA TOYOTA  
 CLOWS PEUGEOT  
 ELIANCE PROCURE TRADE  
 FORSDICKS  
 MCCARTHY CALL-A-CAR  
 MCCARTHY FINANCIAL SERVICES  
 MCCARTHY FLEET SERVICES  
 MCCARTHY MOTORS  
 MEGASHOPPER  
 OLYMPIC TOYOTA  
 SPAR-ON-LINE  
 YAMAHA

## **Management [Directors & Managers] Info**

### **Directors Info**

#### **Name**

AGW WILLIAMSON  
 AR MARTIN  
 DR MT LATEGAN  
 EG RODEN  
 GD DAMP  
 N PHILLIPS  
 PJC HORNE  
 PM GOSS  
 SC MCCARTHY  
 SG PRETORIUS  
 WR PARKHURST

#### **Position**

DIRECTOR: NON-EXECUTIVE  
 DIRECTOR: NON-EXECUTIVE  
 CHIEF EXECUTIVE OFFICER  
 DIRECTOR: GROUP FINANCE  
 DIRECTOR: EXECUTIVE  
 CHAIRMAN: NON-EXECUTIVE  
 DIRECTOR: NON-EXECUTIVE  
 DIRECTOR: NON-EXECUTIVE  
 DIRECTOR: EXECUTIVE  
 CHIEF EXECUTIVE: GROUP  
 DIRECTOR: HR

## **McCarthy Fleet Services**

McCarthy Fleet services has been positioned to act as a facilitator between the fleet owner and the franchises owned by McCarthy Motor Holdings.

### **Products**

FML
Operating Rentals
Financial leases
Instalment Sale Agreements
Rental Agreements
Maintenance Contracts
Access Finance
Petrol & Maintenance Cards

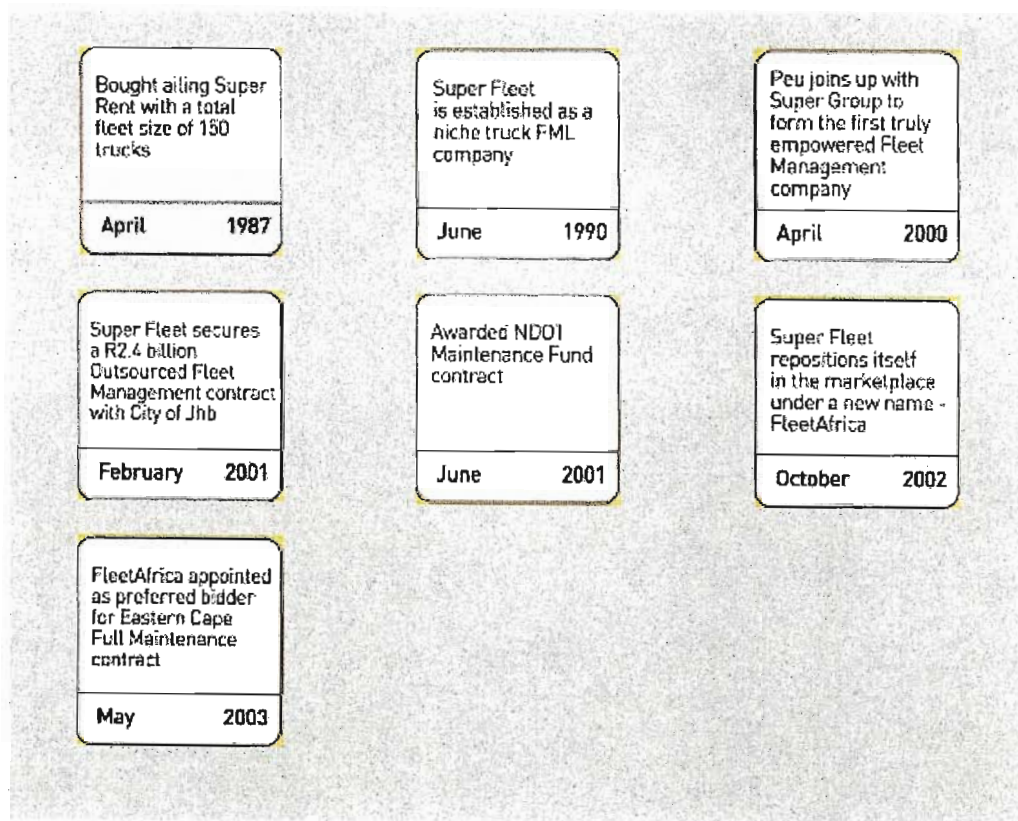
# FleetAfrica

## Nature Of Business

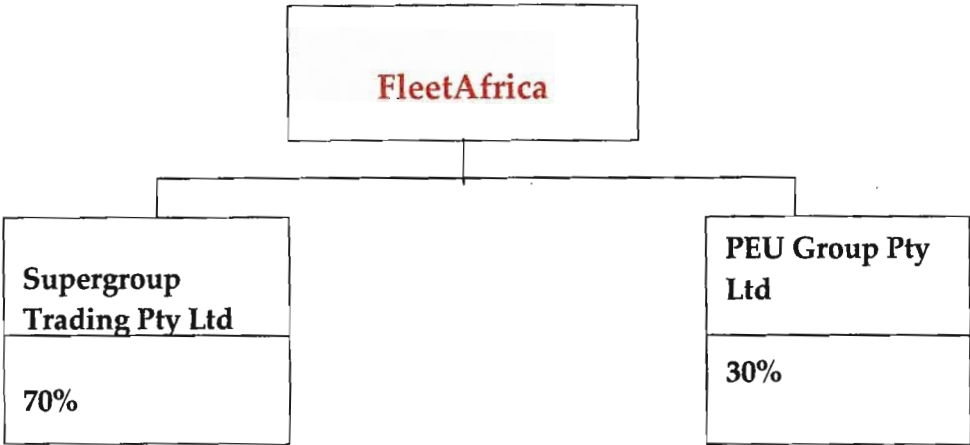
Fleetafrica is a specialised fleet management company at the forefront of the fleet management and full service leasing industry in South Africa.

Fleetafrica has operated as a fleet management and full maintenance leasing business since 1992

## History of Fleetafrica



**Company Structure**



<p>Super Group is a major force in fleet and transport management The Group operates</p>	<p>PEU Investment Group (Pty) Limited is a black-owned investment trust (established in 1996) with business interests in Construction, Information Technology and Financial Services.</p>
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**Group Structure**

Two core divisions: Supply Chain and Automotive.

## **Products**

<b>FML</b>
<b>Operating Lease</b>
<b>Managed Maintenance and Maintenance Fund</b>
<b>Sale and Leaseback</b>
<b>Mobile Fleet Tracking and Usage management</b>
<b>Turnkey Solutions</b>
<b>Call Centre Service</b>

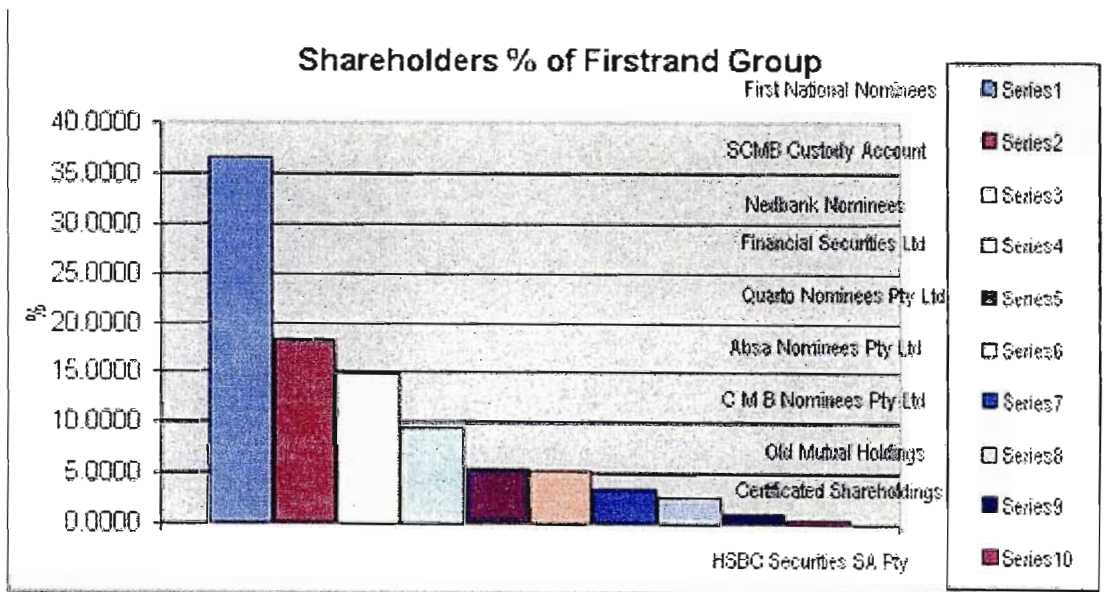


# Firststrand LTD

## Nature of Business

In brief, First Rand is a group of companies, which provide diverse financial service activities in the area of retail, corporate, investment, merchant banking, life insurance, employee benefits, health insurance and asset management.

## The Top ten shareholders of Firststrand Group



## Brands

First National Bank
FNB Corporate
Ansbacher Private Bank
Origin
Wesbank

Momentum Life
Randa Merchant Bank
Futuregrowth
Outsurance
FNB Homeloans
FNB Trust Services
Momentum Advisory services
Momentum Distribution services
Momentum Employee benefits
First Link
Nbs Home loans

**Subsidiaries (Direct & Listed)**

PROFURN PROFURN LTD 78.80%

**Subsidiaries (Indirect & Listed)**

DISCOVERY DISCOVERY HOLDINGS LTD 64.12%  
 FIRSTRAND FIRSTRAND LTD 100%

**Subsidiaries (Direct & Not Listed)**

BUSINESS VENTURE INVESTMENTS NO 607 (PTY) LTD 70%  
 MOMENTUM GROUP LTD 100%

**Subsidiaries (Indirect & Not Listed)**

E-BUCKS.COM (PTY) LTD 100%  
 FIRST NATIONAL BANK (PTY) LTD 80%  
 FIRST NATIONAL BANK OF BOTSWANA LTD (BOTS) 70%  
 FIRST NATIONAL BANK OF NAMIBIA LTD (NAMIBIA) 78%  
 FIRST NATIONAL BANK OF SWAZILAND LTD (SWAZI) 100%  
 FIRSTRAND ASSET MANAGEMENT (PTY) LTD 100%  
 FIRSTRAND BANK LTD 100%  
 FIRSTRAND INTERNATIONAL LTD 100%  
 RMB CORVEST LTD 79%  
 RMB VENTURES (PTY) LTD 90%

## **Wesbank First Auto**

WesBank FirstAuto is a provider of fleet management services in South Africa.

### **Fleet Products**

Autonet	fleet management information via the web
Allowance Management	formulating and / or managing an allowance scheme
Internal Fuel Management	
Managed Maintenance	
Transkard	developed specifically for the payment of toll road fees
Vehicle Identification Technology (VIT)	

### **Management Team**

CEO Wesbank  
General Manager Marketing:  
Communications Manager:

Ronnie Watson  
Trevor Fourrie  
Mikie Manokets

# Digicore Holdings Ltd

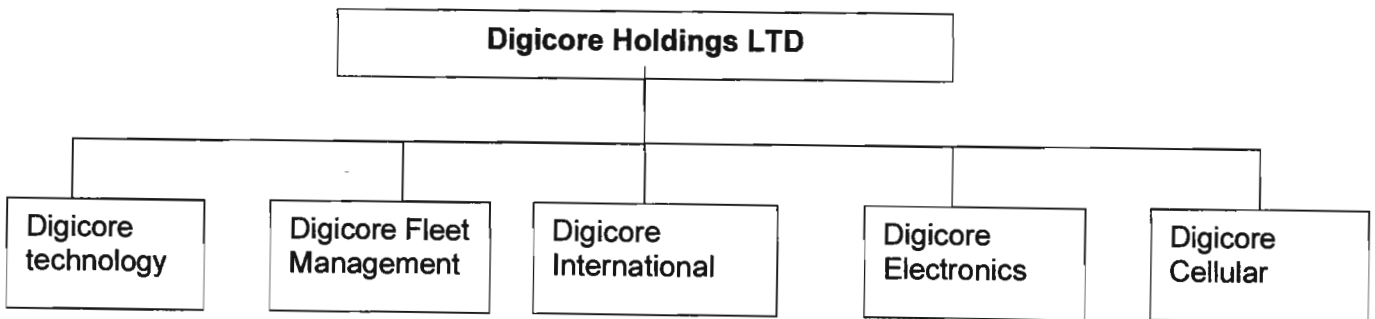
## Nature of Business

The business of the group is to provide and disseminate pertinent management information to its customers, both commercial and industrial for the efficient and effective management of mobile assets such as vehicles and their cargo, for both logistic and security purposes utilising cutting edge technology.

## History Of Digicore

- 1985: Digicore establishes itself as a leading supplier in the SA commercial vehicle tachograph market.
- 1989: Co-Driver, Digicore's first technologically advance fleet and driver management tool, is introduced to the local market.
- 1997: First export order for C-track is received.
- 1998: Digicore is listed on the JSE. Digicore Europe is established.
- 2000: Debis Fleet management order of 19 000 C-track units for the outsourced Telkom fleets.
- 2002: Digicore products received E4 and FTA approval. Awarded ISO 9001 certification.

## Group Structure



## Board of Directors

N H Vlok	Chief Executive Officer
S R Aberdein	Managing Director DigiCore Electronics
B J Richards	Marketing & Sales Director
D du Rand	Managing Director DigiCore Technology
J J du Plooy	Non-executive Director
F W Britz	Group Financial Director
S A Msibi	Non-executive Director
N A Gasa	Non-executive Director
Kevin Stanton	IT Director
A N D Vilakazi	Non-executive Director
U Khumalo	Non-executive Director
N A Ntsele	Non- Executive Director

## Business Partners

Debis Fleet Management
Nashua Mobile
MTN
Wesbank
Vodacom
Tracker

## Products and Services

C- Track Solo	Providet comprehensive real time vehicle management systems
C-Track Assist	Developed specifically to assist with the management of commercial fleets, sales vehicles, FML & Car Rental vehicle security applications.
Co-Driver	Electronic vehicle monitoring system
Pro-Tech	built-in electronic diagnostic and pre-warning system is automatically activated when the vehicle is started and identifies any fault with engine switches, wiring and control modules.
Templog	temperature monitoring system. Ideal for temperature sensitive transport loads such as meat, fruit, fish, milk, Day old chickens and banana ripening.
Information Bureau	

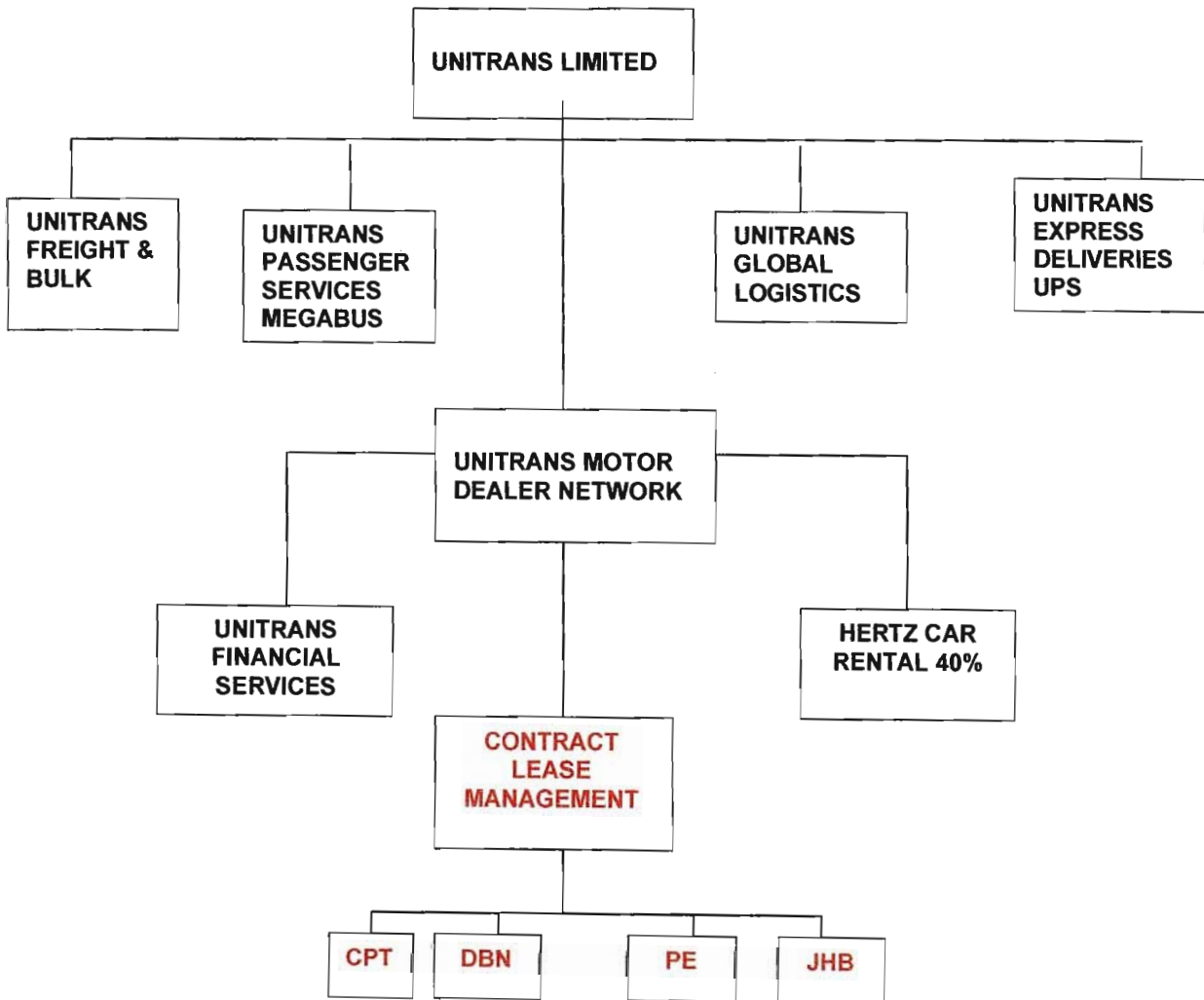
# Contract Lease Management

## Overview Of CLM

Contract Lease Management is a wholly owned subsidiary in the Unitrans Limited Group. Some of their clients include:

- Schindler Lifts
- Simba
- Sony
- Enterprise food
- Criterion Equipment
- Tedelex
- Gallo

## Group Structure



## Products

FML	Financial Rental+Maintenance+Management fee+Licence Costs+AA Roadside Assist(Optional)+VAT
Operating Rentals	Financial Rental+Management Fee+Licence Costs+AA Roadside Recovery(optional)+VAT
Maintenance Plans	
Managed Maintenance	
<b>Value Added</b>	
Fuel Card	Stannic
Accident Management	Outsourced
Vehicle and driver Management	Latitude(Natis)
Fleet Consulting	
Distribution and Logistics	Unitrans
Vehicle Procurement	Unitrans Motors
Vehicle Disposal	CLM Used Vehicles
Finance and Insurance	Ufin/UInsure
Fleet Take-on and Lease-Back (Used Vehicles):	

\*Reports Generated: Client Usage Reports  
 Termination Reports  
 Customer Cost Centre Recon Reports  
 Managed Maintenance Report

### Management Of CLM

**Managing Director**

*Johan Van Niekerk*

**Financial Manager**

*Hendrik Cronje*

**Debtors Manager**

*Yusuf Ebrahim*

**Development Manager**

*Mark Van As*

**Operations Manager**

*Alwyn Groenewald*

**Customer Service Manager**

*Pauline Bridges*

**Maintenance Manager**

*Dave Swanson*

### Branch Sales Managers

**Gauteng**

*Alison Watkins*

**Durban**

*Michelle Meyers*

**Cape Town**

*Elize Herselman*

**Port Elizabeth**

*Ann Hope*



# Barloworld Ltd

## Nature of Business

Barloworld is an international industrial brand management corporation. Barloworld is a major Caterpillar dealer, the world's largest independent lift truck dealer, a leading provider of comprehensive transport solutions, the leading cement and lime producer in South Africa, a global or regional market leader in a number of highly niched scientific product markets. They are the market leader in decorative coatings in South Africa, and finally also the leading steel tube and pipe manufacturer and distributor in South Africa.

## Subsidiaries

### Subsidiaries (Direct & Listed)

PPC PRETORIA PORTLAND CEMENT CO LTD	66.2
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### Subsidiaries (Indirect & Listed)

### Subsidiaries (Direct & Not Listed)

BARLOWORLD AUSTRALIA (PTY) LTD (AUSTRALIA)	100%
BARLOWORLD BOTSWANA (PTY) LTD (BOTSWANA)	100%
BARLOWORLD COATINGS (PTY) LTD	100%
BARLOWORLD COATINGS AUSTRALIA (PTY) LTD	100%
BARLOWORLD EQUIPMENT (PTY) LTD	100%
BARLOWORLD EQUIPMENT UK LTD (UK)	100%
BARLOWORLD HOLDINGS LTD	100%
BARLOWORLD INDUSTRIAL DISTRIBUTION LTD	100%
BARLOWORLD INTERNATIONAL INVESTMENT PLC (UK)	100%
BARLOWORLD LOGISTICS COMPANY (PTY) LTD	100%
BARLOWORLD MOTOR (PTY) LTD	100%
BARLOWORLD NAMIBIA (PTY) LTD (NAMIBIA)	100%
FINANZAUTO SA (SPAIN)	99.7%
PROTEAN LIMITED (ENG)	100%
RIH INVESTMENTS (PTY) LTD	100%
SOCIEDADE TECNICA DE EQUIP E TRACT SA (PORTUGAL)	98.8%

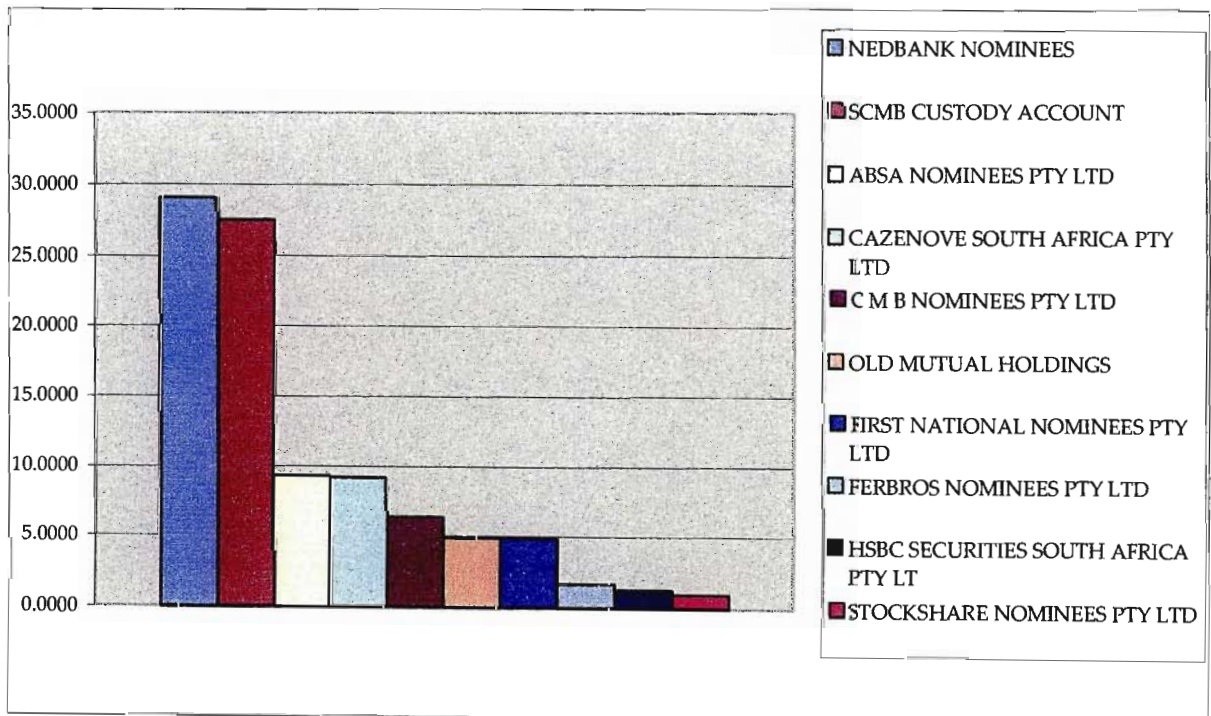
## Associates

AVIS SOUTHERN AFRICA LTD

34.6%

AMANZI LIME SERVICES (PTY) LTD	50%
BARZEM (PTY) LTD	35%
BONSKIA INVESTMENT (PTY) LTD	49%
CHEMCORP AUSTRALIA (PTY) LTD	50%
FINALTAIR BARLOWORLD SA	50%
HERBERTS-PLASCON (PTY) LTD	49%
INTERNATIONAL PAINTS (PTY) LTD	49%
KGALE QUARRIES (PTY) LTD (BOTSWANA)	50%
LONGRIDGE (PTY) LTD	50%
MERCEDES-BENZ OF MELBOURNE (PTY) LTD	49%
MINE SUPPORT PRODUCTS (PTY) LTD	50%
SCHENECTADY SA (PTY) LTD	49%
SELECT TRUCKS LLC	50%
SHALEJE SERVICE TRUST	38%
SHOSHOLOZA (PTY) LTD	30%
SIZWE PAINTS (PTY) LTD	30%
SURCOTEC (PTY) LTD	40%
UMNDENI CIRCON (PTY) LTD	33%
VALSPAR (SOUTH AFRICA) (PTY) LTD	20%

### Top Ten Shareholders of Barloworld Ltd



## Main Operating Divisions

Capital Equipment
Industrial Distribution
Motor
Cement & Lime
Scientific
Coatings
Steel Tubes
Financial Services & Logistics
Corporate Operations

## Board Of Directors

AJ (Tony) Phillips	Chief Executive Officer
K (Ken) Brown	Chief Executive Officer, Industrial Distribution
MD (Mike) Coward	Chief Executive Officer, Steel Tube
LS (Lester) Day	Chief Executive Officer, Capital Equipment – Southern Africa and Siberia
JE (John) Gomersall	Chief Executive Officer, Cement and Lime, and Chairman, Logistics
BP Diamond	Chief Executive Officer, Motor
AJ (André) Lamprecht	CEO, Barloworld Coatings
PJ Maybury	Chief Executive Officer, Scientific
PM (Peter) Surgey	Executive Director, Human Resources
CB (Clive) Thomson	Finance Director
WAM (Warren) Clewlow	Chairman
RKJ (Russell) Chambers	Non Executive Director
MJ (Mike) Levett	Non Executive Director
DB (Dumisa) Ntsebeza	Non Executive Director

SB (Steve) Pfeiffer	Non Executive Director
LA (Louise Tager	Non Executive Director
EP (Eddie) Theron	Non Executive Director
RC Tomkinson	Non Executive Director

## Avis Group

### Nature of Business

The Group's principal business activities are in the markets of travel and tourism and value added leasing services. Major activities are the rental and leasing of light motor vehicles. Support activities include used car sales, accident management, driver training, insurance and customer relationship management.

### Contribution by activity

Motor Vehicle and leasing - local	80.5 %
Motor Vehicle and leasing - foreign	19.5 %

Listed in 7 April 1997

Shareholders	%	Shareholder	%
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CAZENOVE SOUTH AFRICA PTY LTD	34.7316	FERBROS NOMINEES PTY LTD	0.3272
SCMB CUSTODY ACCOUNT	18.3282	B N S NOMINEES PTY LTD	0.1804
NEDBANK NOMINEES	16.3951	ABSA STOCKBROKERS PTY LTD	0.1723
FIRST NATIONAL NOMINEES PTY LTD	9.1209	STOCKSHARE NOMINEES PTY LTD	0.1475
OLD MUTUAL HOLDINGS	6.7782	HSBC SECURITIES SOUTH AFRICA PTY LT	0.1113
GARDENVIEW NOMINEES PTY LTD	5.4823	JUSPOINT NOMINEES	0.0958
ABSA NOMINEES PTY LTD	3.8070	ANDISA SECURITIES PTY LTD	0.0721
CERTIFICATED SHAREHOLDINGS	2.9989	C M B NOMINEES PTY LTD	0.0654
SANLAM PRIVATE INVESTMENTS PTY LTD	0.4957	SONSET NOMINEES PTY LTD	0.0510
PSG SECURITIES LTD CUST	0.3669	COMPUTERSHARE NOMINEES (PTY) LTD	0.0476
RINRIC NOMINEES PTY LTD	0.0317	S M K GENOMINEERDES EDMS BPK	0.0193
QUARTO NOMINEES PTY LTD	0.0293	PRISM NOMINEES PROPRIETARY	0.0192
TRADEK BALDERSON NOMINEES PTY LTD	0.0247	LAVANREN NOMINEES PTY LTD	0.0129
GENSEC NOMINEES PTY LTD	0.0140		

## Top Ten Shareholders of Avis

### Directors & Management

TRT BOHLMAN	Non Exec Director
JW DREYER	Non Exec Director
G VAN HEERDEN	Non Exec Director
GJ WILSON	Chief Executive Officer
GD CELLIERS	Chief Exec Scandinavian
HM KHOZA	Non Executive Director
AR LANGHAM	Group Financial Director
P O'BRIEN	Director
HR CLOETE	Non Executive Director
BP DIAMOND	Non Executive Director ( Barloworld )
LM SAVAGE	Director
Bankers	Nedcor Pty Ltd
Auditors	PricewaterhouseCoopers Inc
Registration No	1967/010320/06

### Brand Names

Avis Fleet Services, Avis Rent a Car, Avis Chauffeur Drive, Fleet Accident Management Services, Rent a Car South Africa, Sizwe Car Rental, Zeda Car Sales, Avis Luxury Car, Avisuper, Avis Enterprises, Avis Norway, Avis Sweden, Avis Van Rental.

## Subsidiaries, Associates & Investments

Company
AIC Car Rental ( Namibia )
AIC Financing Namibia
Aic 4 x FOUR Rental
AIC Namibia
AIC Truck Leasing ( Namibia )
ASA Holdings ( Denmark )
Auto Fleet Services ( Free State )
Auto Fleet Services ( KZN )
Auto Fleet Services ( North West )
Auto Fleet Services
Auto Fleet Services ( Western Cape )
Avisuper
The CAR MALL
Car Rental Holdings
Car Rentals Holdings – Botswana
Car Rentals Botswana
Chartered Auto Rental Services
DAVMAT Auto Body
Executive Auto-bodies
Fleet Accident Management
Fleet Services
Hutton Panel Beaters
Insurance Systems International
Midlands Car Hire Zimbabwe
Mozambique Car Rental LDA – MZ
Multi Emergency Management
Pavilion Car Rental
RIKSBILAR AB
RIKSBILAR FLEET AB
RIKSBILAR HOLDING AB
RPB Collision & Repair Specialists
Sizwe Car Rental
Vuswa Fleet Services
Zeda Auto Services
Zeda Car Franchising

Zeda Car Leasing
Zeda Car Rental
Zeda Car Rental Swaziland
Zeda Financing
Zeda Investment Holdings
Zeda Management Services
Zeda Namibia
Zeda Touring Namibia
Zednic Finance

Avis Fleet Services

Directors & Management

F VILJOEN	Financial Director
Internal Appointment	Operations Director
LM SAVAGE	Managing Director
S PRESTON	Procurement Manager
T JENKINS	Contract Maintenance Manager
LA WORDON	Sales & Marketing GM

Sector	Unlisted
Employees	120
Bankers	First National Bank
Auditors	PricewaterhouseCoopers Inc

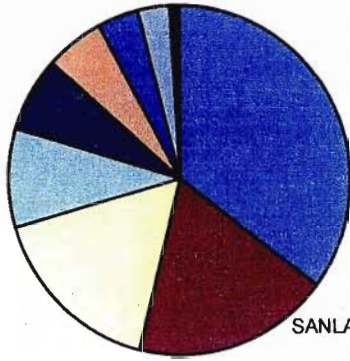


## Subsidiaries

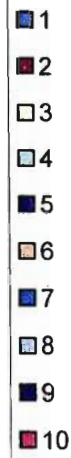
Subsidiaries (Direct & Not Listed)	
120 STRAND STREET (PTY) LTD	100.00%
2A SYSIE ROAD PROPERTIES (PTY) LTD	100.00%
AIC NAMIBIA (PTY) LTD (NAMIBIA)	100%
BUSINESSURE (PTY) LTD	50%
CAR RENTAL HOLDINGS (PTY) LTD (BOTSWANA)	100%
INVESTMENT FACILITY CO THREE EIGHTY THREE P/L	60.00%
LICENSEES AVIS AFRICA LTD (BRIT VIR ISL)	100.00%
LIVA BIL AS (NORWAY)	100%
MULTI - EMERGENCY MANAGEMENT (PTY) LTD	50%
NO 1 MASJIEN STREET (PTY) LTD	100.00%
NO 10 PASCOE ROAD UMLAAS (PTY) LTD	100.00%
RIKSBILAR AB (SWEEDEN)	100%
ZEDA CAR RENTAL (PTY) LTD	100.00%
ZEDA CAR RENTAL (SWAZILAND) (PTY) LTD	100.00%
ZEDA FINANCING (PTY) LTD	14.30%
ZEDA INVESTMENT HOLDINGS (PTY) LTD	100%
ZEDA MANAGEMENT SERVICES (PTY) LTD	100.00%
ZEDA NAMIBIA (PTY) LTD	100%

Subsidiaries (Indirect & Not Listed)	
41 NICKEL STREET (PTY) LTD	100.00%
AIC CAR RENTAL (NAMIBIA) (PTY) LTD (NAMIBIA)	100.00%
AIC FINANCING (NAMIBIA) (PTY) LTD (NAMIBIA)	100%
AIC FOUR X FOUR RENTAL (PTY) LTD (NAMIBIA)	85.00%
AUTO FLEET SERVICES (NORTH WEST) (PTY) LTD	25%
AUTO FLEET SERVICES (PTY) LTD	30%
AVI SUPER (PTY) LTD	50%
CAR MALL (PTY) LTD, THE	50.00%
CAR RENTALS BOTSWANA (PTY) LTD (BOTSWANA)	100%
CHARTERED AUTO RENTAL SERVICES (PTY) LTD	100%
DAVMAT AUTO BODY (PTY) LTD	100%
EXECUTIVE AUTOBODIES (PTY) LTD	100%
FLEET ACCIDENT MANAGEMENT (PTY) LTD	50%
FLEET SERVICES BOTSWANA (PTY) LTD (BOTSWANA)	100%
HUTTON PANEL BEATERS (PTY) LTD	100%
MASTERDRIVE (PTY) LTD	37%
MOCAMBIQUE CAR RENTAL LDA (MOCAMBIQUE)	51.00%
PAVILLION CAR RENTAL (PTY) LTD	100%
RPB COLLISION & REPAIR SPECIALISTS (PTY) LTD	100%
THE CALL MALL (PTY) LTD	50%
VUSWA FLEET SERVICES (PTY) LTD	100%
ZEDA AUTO SERVICES (PTY) LTD	100%
ZEDA CAR RENTAL (LESOTHO) (PTY) LTD	100%
ZEDA NAMIBIA (PTY) LTD (NAMIBIA)	100%

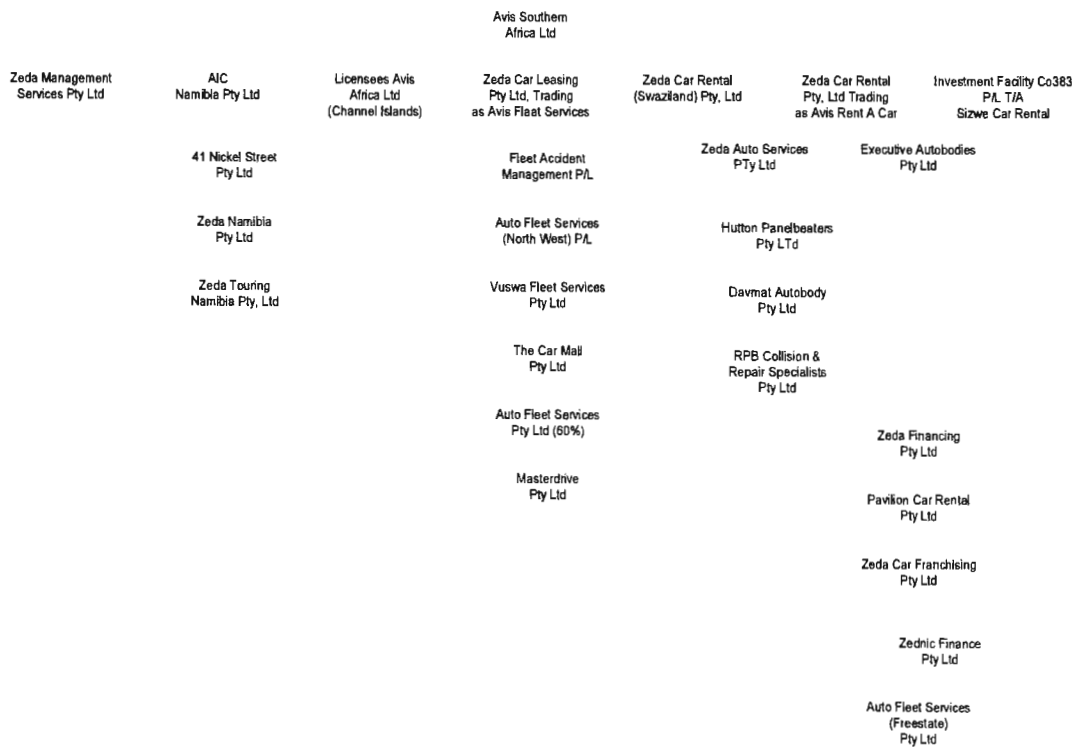
## Top Ten Shareholders of Avis



1 CAZENOVE SOUTH AFRICA PTY LTD (34.7%)  
 2 SCMBCUSTODYACCOUNT(18.32%)  
 3 NEDBANK NOMINEES(16.39%)  
 4 FIRST NATIONAL NOMINEES PTY LTD (9.12%)  
 5 OLD MUTUAL HOLDINGS(6.77%)  
 6 GARDENVIEW NOMINEES PTY LTD(5.48%)  
 7 ABSA NOMINEES PTY LTD (3.80%)  
 8 CERTIFICATED SHAREHOLDINGS (2.99%)  
 9 SANLAM PRIVATE INVESTMENTS PTY LTD (0.49%)  
 10 PSG SECURITIES LTD (0.366%)



Avis( McGregor 2003-Who Owns Whom)



## Fleet Products

Product	Description
FML	
Sale and Leaseback	Purchasing the existing fleet
Managed Maintenance	
Operating Leasing	Same as Operating Rental
Car Allowance Schemes	
Value Added Products	
Direct On,line	Information services on line
Fleet Accident Management	Towing, liase with broker, oversee repair work, Process claims
Vehicle Recovery System	Tracker
Driver Training	Defensive driving available through Master Drive
Corporate AA membership	
Car Mall	Disposal of vehicles
Avis Fuel card	Fuel, oil and toll

### Sales and Back-up Infrastructure

- o An In-house information systems department
- o A technical services department
- o A customer administration services department
- o An accounting department
- o A vehicle purchasing department
- o A national vehicle disposal department(Car Mall)

### Target Market:

Avis targets its services to both corporate and commercial clients in South Africa, Namibia, Botswana, Mozambique and Swaziland.

## Chairman's Statement

2003 MARCH Since its listing in 1997, Avis has maintained a compound growth rate in excess of 25% in its headline earnings per share, thus demonstrating the integrity, resilience and sustainability of its business model. Taking a longer view, since the company was established some 35 years ago, it has also shown a similar compound growth rate in the size of its on-balance-sheet vehicle fleet - a significant indicator, as fleet size is a major driver of revenues and profitability. The group's balance sheet remains strong and under-gearred for the businesses that we operate. This is evidenced by the group's high interest cover ratio and low interest rate sensitivity. All the group's interest-bearing debt is backed by readily realizable assets in the form of motor vehicles. Our capital structure allows us to support a significant amount of additional debt (up to a further R1 billion while still retaining a gearing level at under 4:1). Other than inflationary reserving requirements to maintain gearing ratios, most of the group's earnings are "free cash flows" and are available to fund real volume growth and make shareholder distributions. With these sound financial fundamentals the group should be able to continue with its robust organic growth and possibly even make business acquisitions without the need to resort to raising funds from the capital markets. Avis's investment-grade zaA+ long-term credit rating and very strong zaA1 short-term rating were recently re-confirmed by the South African affiliate of Standard & Poor's, which noted the group's high quality financial position relative to its peers, including those in Europe and the USA.

**OPERATIONAL PERFORMANCE REFLECTS GROUP STRENGTHS**

The achievements of the past year were driven by a set of strengths that are fundamental to Avis's success

These are: Its commitment to a vision of "exceeding customer expectations at every interface". The strength of its global superbrand. The motivate employees who deliver on its promises of "We Try Harder" and "People are more important than cars". Its world-class systems, services and products. A balanced business portfolio, which includes a substantial offshore component, the annuity income of Fleet Services and the trading upside of Rent-A-Car. These businesses can all be flexed very quickly, in terms of assets and overheads, to meet market demands. Its concentrated focus on its core businesses of car rental and value-added fleet management services. Its unrelenting emphasis on efficiency and low-cost production, coupled with rigorous financial controls. Its commitment to sound governance, including risk management, and high ethical standards.

**OUR HUMAN CAPITAL** The past year's advances in service levels, efficiencies and cost control are largely attributable to Avis's committed people and to the substantial investment the group continues to make in their training and motivation. The Brand Ambassador programme initiated in Southern Africa in 2001 (designed to help employees realize how their personal behaviour plays a crucial role in how Avis is perceived and how it performs) has proved to be a powerful attitudinal and behavioural tool. This programme is being extended to the Scandinavian operations in the course of the new year. The group invests substantially in both formal skills and value training programmes to equip employees with the necessary technical capabilities as well as a commitment to the Avis culture of quality service. These enable them to meet Avis's high performance standards and to advance their careers in the group.

**EMPOWERMENT INITIATIVES** The South African government has recently published a policy document on black economic empowerment (BEE), covering such issues as employment equity, skills development spend, procurement policies, investment in new empowered enterprises, executive management involvement and direct equity participation. Like most South African companies, Avis faces challenges on the BEE front, but the group has made significant progress on all the key issues. Performance gaps are being closed and targets should be achieved within set timetables. The development of previously disadvantaged individual (PDI)

employees into senior executive positions will no doubt remain our greatest challenge - our current team being relatively young, enthusiastic and stable - but we have been recruiting many promising people into the group and they are being mentored to help ensure their successful career growth. The Fleet Services division is involved in a number of provincial, project-based joint ventures with BEE partners and has been pursuing a successful affirmative procurement strategy for a number of years. Rent-A-Car in South Africa is accelerating its BEE procurement strategy and is also focusing on assisting BEE-operated businesses, particularly those involved in vehicle rental services. Our systems are being updated to ensure that our spend with BEE suppliers can be accurately tracked. At the corporate level, we are reviewing the demographic profile of the boards and the shareholding structures of our subsidiaries with a view to increasing their BEE components. In the Scandinavian operations, empowerment initiatives are gender-orientated and we will shortly be announcing the appointment of women at board level.

**BROADENING OUR SOCIAL RESPONSIBILITY SCOPE** In the belief that a successful company should also be a responsible corporate citizen and a good neighbour, Avis includes among its stakeholders the communities in which it operates. Its social responsibility programmes have traditionally focused on tourism, which not only conserves the natural heritage but promotes economic development. In particular, it has long supported nature conservation, ecology and travel and tourism education. As far as the impact of Avis's operations on the environment is concerned, our Scandinavian businesses are already required to meet strict ecological standards. It is our ideal to eventually make all our operations carbon-neutral. While the group's championing of conservation causes will continue undiminished, Avis has recently extended the scope of its social responsibility programmes to encompass wider community concerns. In line with this approach, it has entered into a partnering agreement in South Africa to promote HIV/AIDS education amongst our employees and in the entire population. We have been fortunate that the profile of our employees (in terms of educational standards, age and lifestyle) has not resulted in a high recorded prevalence of the epidemic within our staff. Nevertheless, the potential socio-economic impact of the disease in the Southern African region requires our whole-hearted support to combat its spread and to find a cure. In Norway and Sweden, the Avis operations focus on local community assistance as well as contributions to international humanitarian needs.

**AVIS SOUTHERN AFRICA AND ITS LICENSOR** Avis Southern Africa's licensor is Avis plc, which holds the rights to the Avis brand in Europe, Africa, the Middle East and Asia. The ultimate licensor is the US-based Cendant Corporation through Avis Inc. in the U.S.A. We have held our license since 1969 and for several years now have ranked as the largest licensee outside the USA, other than Avis plc. (Avis is the largest car rental operator in Europe and the second largest in the world). Avis's worldwide Wizard on-line reservation and asset management system, the most advanced of its kind in the industry, provides us with a significant technological edge. Avis Inc. together with Avis plc have recently taken over the world-wide rights to the Budget car rental brand. We will shortly be holding discussions with Avis plc in this regard. Avis Southern Africa has a strategic objective to become the benchmark operator of the Avis brand - in terms of the delivery of service we provide to the Avis customer, our care for the brand, our operating efficiencies and the direct financial benefits we provide to our licensor. Strategically we are aligning our systems with Avis plc's and developing new service enhancements that we can provide to other Avis operators.

**GOVERNANCE** Avis Southern Africa has always committed itself to the highest levels of integrity in all its dealings. The increasingly complex investment environment has led us to adopt international accounting standards and improved transparency in our reporting to stakeholders. Standards, policies and procedures are continually receiving attention to ensure that stakeholders remain fully informed of strategies, trading conditions, internal processes and corporate actions.

**ACKNOWLEDGEMENTS** The exceptional results of the past year represent the efforts of the Avis team who continue to Try Harder, and who showed by personal example that people are more important than cars. I thank them for their hard work and their commitment to the spirit of Avis. Grenville Wilson and his management team again led from the front, successfully combining a constant quest for improvement with respect for the fundamentals on which

this business has been built. My colleagues on the board provided an invaluable perspective and wise counsel on the direction of the group. Finally, on behalf of all at Avis, I wish to express our sincere appreciation to our stakeholders, especially our customers, for their continued support. We will continue to try Harder to increase the value we deliver to them.

## News briefs

### Avis Southern Africa Ltd

In the year to March 1998 the group delivered a 33% increase in headline earnings per share. Major developments during the year included the acquisitions of a 75% interest in the timeshare group RCI Southern Africa, 51% of Avis Mozambique and 100% of the Namibian tour operator Cryx. These acquisitions were in line with the group's objectives of expanding its presence in the leisure sector of the travel and tourism market as well as strengthening its regional network. Another noteworthy event during the period under review was the issue of 10% of the group's equity to a black economic empowerment consortium for R105 million in cash.

## Daimler Chrysler South Africa P/L

DaimlerChrysler South Africa (DCSA) is wholly owned by DCAG and is one of the largest foreign investments in South Africa.

### Nature Of Business

Automotive passenger cars, commercial vehicles and parts manufacturers, marketers and suppliers.

Sector: Unlisted  
Abbreviation: DAIMLERCHR  
Bankers: Various  
Employees: 4500

### Directors And Management

R Borgenheimer	Finance
G Du Plessis	Commercial Vehicles
J Evertse	Human Resources
C Kopke	Chairman
H Niefer	Manufacturing
F van Olst	Sales and Marketing

### Familiar Brand Names

Colt
Mitsubishi
Pajero
Mercedes Benz
Freightliner
Jeep
Chrysler

## Subsidiaries and Associated Companies

Adepart P/L
DaimlerChrysler Capital Services P/L
DaimlerChrysler SA Manufacturing P/L
DaimlerChrysler Services SA P/L
DC Aviation P/L
Koppieview Property P/L
MTU South Africa P/L
Sandown Motor Holdings P/L

### The Key Accounts division of Daimler Chrysler focuses on:

- Fleet marketing and sales;
- Government marketing and sales;
- Sales to diplomatic corps;
- Sales to disabled persons.

## debis Fleet Management

Owned 75% by DaimlerChrysler Services and 25% by Kagiso Ventures Limited, debis Fleet Management is an independent company that provides an extensive range of fleet management services, including full maintenance leasing, pool vehicle administration and an electronic auction network. Debis manages in excess of 80 000 contracts in a wide range of applications (includes Telkom contract).

### DaimlerChrysler Services

DaimlerChrysler Services is the financial arm of the company. The services offered include:

Finance and leasing Products ( Vehicle finance to suit your particular needs).

Insurance & Warranty Protection ( Insurance, warranty and maintenance).