

# What is the future of fuel retailing in South Africa?

The fuel retailing sector in South Africa is complex and fraught with issues. This is evident by the fact that fuel station operators juggle between various challenges of the fuel problem in South Africa while balancing much-needed income streams from forecourt shops and other services with franchise agreements. Reggie Sibiya, CEO of the Fuel Retailers Association (Fra), highlighted the challenges this sector faces at the Franchise Association of South Africa (Fasa) Conference that was held at the end of August 2021. During his talk at the virtual conference, Sibiya also addressed the sector's labour issue, legislative conundrum, and importantly, the future it holds in South Africa.



Reggie Sibiya, CEO of the Fuel Retailers Association | image supplied

Sibiya in his talk stressed that fuel remained a very strategic resource albeit capital intensive due to the nature of its assets. "The bottom line, however, is that the economy and people need fuel – at least for the immediate future. It is also very labour intensive and currently employs over 83,000 people and has 4,500 SMMEs running fuel retail operations."

Fuel is the major part of the business making up 60 – 80%, depending on location; urban sites progressively doing more convenience and other supplementary streams, more than in rural areas. Margins are fixed, pump prices are increasing and change every month. "With no relativity between fixed margin and the movement of prices, most of the operating expenses are linked as a percentage of the pump price so when the pump price goes up, the operational expenses also go up yet the margin is fixed annually," said Sibiya. "This leads to the erosion of the operating margin at the end of the day which is not a good or healthy situation to be in."

"Covid-19 impacted the industry with volumes dropping by 80% with many operators pleading for rental relief from landlords, bank holidays and with very little or no support from government. Then came the July riots and looting and the sector lost over R300m to looting and property damage – the combined Covid-19 and looting cost the industry billions of Rands in both revenue and tax collection through fuel levy and road accident fund."

## The challenge to stay in business

Sibiya said that the current picture today of fuel retailing is one of economic challenges coupled with declining volumes due

to people spending less on travelling, and margins being eroded and compromised through lack of collaboration in the industry. He said that the sector is a peculiar one in that their value chain has a lot of players who have different interests.

“Remember, margins are determined by the minister of mineral and energy resources and once determined they are fixed. If operational elements are not in the margins operators are under-recovering and will take the strain,” said Sibiya. “A 2016 KPMG study showed exactly that – we were under-recovering 12c per litre on cost recoveries and those adjustments have never been factored into our margins.”



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He explained that unregulated costs, like airtime, Lotto and even cigarette sales were compromised over time – it is becoming tighter and tighter to operate the service station business – both in relation to regulated and unregulated elements of the business. “With increasing pump prices and fixed margins, we are way below the appropriate levels that we should be recovering,” he said.

## The labour conundrum

“Labour challenges have been compounded by rising levels of unemployment and retrenchments as a result of Covid-19 although the industry was taking strain even before the pandemic,” said Sibiya. “As hardships of the compromised retailer margins continue, retrenchments continue to increase with no clear strategies to address this problem from government.”

Sibiya said the sector retrenched 3,658 employees during the pandemic period – a trend that is going to continue until the government intervenes or the economy fully recovers. The looming issue of the 4th Industrial Revolution and how that is going to impact the training of the labour force is another challenge. Covid-19 has forced and fast-tracked this transition at a point when the industry was not ready for it.

“Fra believes in the long-term sustainability of bargaining councils and plays a major part in engaging with them but the extension of scope to non-parties is a serious threat, as in the absence of centralised bargaining, SMMEs will be forced to spend a lot of time dealing with trade unions which is not desirable or productive as their focus must be on running their businesses versus them spending time on bargaining issues. “We are expecting tough wage negotiations in view of Covid-19 and the very slow economic recovery,” Sibiya said.

## Navigating the legislative maze

The legislation of fuel retailing can be looked at as a separate sector of its own with a myriad of regulations underpinned by various legislations, contractual agreements, SABS standards, bargaining councils and the Protection of Personal

Information Act. Sibiyi outlined a few of these regulations:

Petroleum Products Acts and its regulation challenges include the proliferation of service stations and the rampant illegal trading which is threatening the sustainability of existing service stations businesses; if it is not addressed seriously we may as well forget about the survival of the fuel retailing business.



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12B arbitrations - a clause enshrined in the petroleum products act – has caused a lot of hardships both from the franchisor and franchisee side.

The Consumer Protection Act, although in place for some time has so many different codes and for a sector that operates multi-faceted businesses, the challenge of figuring out where it belongs has proved to be a challenge for the sector.

## The future trends that will impact the sector

New alternatives to fuels and imagining customer needs are driving the evolution of the industry with electric vehicles and hybrids being slowly introduced driven by an emissions reduction global agenda. South Africa, which exports as much as 64% of the combustion engine cars it produces to countries like the UK, which have very clear cut legislation that phases out the use of combustion engines, will feel the impact on the economy going forward.

“The key drivers to future trends lies with customers creating a competitive edge where the evolution needs to move from the needs of the vehicle to the needs of the driver and their passengers,” explained Sibiyi. “In other words from defining our customers as drivers in cars who want to refuel to defining customers as people on the move who need something – and that something is as open as the sky is the limit.

Creativity needs to come in to figure out how we meet those needs as and when they arise. This is where convenience retailing comes in and how to position ourselves when electric vehicles become a reality. With this scenario playing out on a daily basis, service station owners then need to add convenience stores, fast food and beverages, car washes, car and trailer hire, with electric or hybrid vehicle charging spots, laundry services or even future potential in pharmacies on the radar to make ends meet. That’s the future of the fuel retailer – a businessman like no other juggling multiple facets in an ever-changing economic landscape,” Sibiyi explained.

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