2. Structure of the SA Retail Fuel Industry

1. Topography

The South African retail fuel sector is a highly sophisticated industry with a long and, at times, controversial history. The sector boasts a solid infrastructure that, in all but exceptional cases, meets customer demand with regular and predictable supplies. On the whole, both oil companies and dealers operate world-class facilities offering a wide range of petroleum-based products (SBAB, 2001).

The bulk of South Africa's oil imports come from the Middle East. The chief suppliers are Iran, Kuwait and Saudi Arabia which are responsible for 45%, 17% and 8% respectively. The only significant supplier from outside the Middle East is the United Kingdom which supplies about 8% of South Africa's oil imports. Imports of crude oil make up about 10% of the country's total imports while taxes on liquid fuels contribute about 10% of government revenue at around R14.5 billion annually. The sector is the fourth largest source of taxation income after income tax, VAT and corporate income tax (SBAB, 2001).

The energy sector is profoundly important to the national economy with almost every good and service bearing some element of fuel costs. The sector as a whole employs about 250 000 people. According to Mineral and Energy Affairs Minister Phumzile Mlambo-Ngcuka: '…Energy comprises approximately 15% of our GDP. The total electricity sales in 2001 grew by 1.8% to 181 511 GWh. Total liquid fuel sales in 2001 grew by 0,3% to 20 934 million litres. These figures demonstrate the growth of the South African economy and the importance of energy as key driver of our economy' (RISE 2002: 8).

There are between 4 500 and 5 000 service stations in South Africa, though the numbers change fairly frequently as new outlets are opened and old ones closed. In 2000, according to Sasol statistics, there were 4 850 service stations. Most of these were located in Gauteng (31%), KwaZulu-Natal (19%) and the Western Cape (16%) (SBAB, 2001). We will assume, for the purposes of this study, that there are roughly 4 900 petrol stations currently in service nationwide.

The sector is characterised generally by an extremely tough competitive environment, relatively low gross margins and high stock turnover rates (SBAB, 2001). It is both highly capital intensive from the point of view of the oil companies and highly labour intensive for the sector as a whole. About 55 000 people are employed in the fuel retail sector, most of them forecourt attendants.

One of the most important trends of recent times has been the diversification of the fuel retail sector. This has seen petrol stations become access points for a whole range of other services including banking, car sales, food retail outlets, car-wash, lotto and cellphone supplies, among others. This has changed the face of the fuel retail sector, allowing many marginal outlets to survive while generating new income streams for established stations.

The South African liquid fuels industry is heavily-regulated. According to Potchefstroom University's Small Business Advisory Bureau (SBAB) – which conducts an annual survey of the sector – the wholesale price for fuel in South Africa is almost 30% above internationally competitive levels. According to the SBAB, this extra annual cost of some R2.2bn accrues largely to the oil companies, 'hurting consumers and the economy as a whole' (SBAB, 2001).

Government fuel tax comprises approximately 40% of the retail price of petrol and 30% in the case of diesel. In addition, built into the fuel price are further levies for compulsory third party insurance, customs and excise charges together with transport and delivery costs (see table 2.1).

Table 2.1: Petrol Price Breakdown: Petrol Price 93 Octane, Gauteng, December 2000

	Cents per litre	%
Basic price (IBLC)*	141.7	43.9
State levy	8.0	2.48
Retail margin	25.2	7.8
Wholesale margin	17.6	5.44
Transport cost	11.3	3.5
Delivery cost	5.1	1.58
Equalisation fund levy	0.0	0.0
Road accident fund	14.5	4.49
Customs and excise	4.0	1.24
Fuel tax	95.6	29.6
TOTAL	323.0	100.03

Source: Small Business Advisory Bureau, University of Potchefstroom
**IBLC = in-bond landed cost*

The government determines the maximum wholesale price of diesel and maximum retail price of illuminating paraffin, whereas the pump price of petrol is prescribed in terms of the Petroleum Products Act (120 of 1977). According to the Act, which is in the process of being amended, petrol may not be sold on credit and discounting is not allowed. Thus, the government prescribes the price of petrol and the retail margin is a controlled element in the price of petrol. The present retail margin is based on the actual cost incurred by a sample of representative service stations with average monthly petrol sales volumes equal to the country's average petrol sales (SBAB, 2001).

There seems to be consensus that the sector is over-traded in terms of the number of retail service stations while demand for fuel has been stagnant. The entrance of Sasol into the market, the abolishment of the Service Station Rationalisation Plan (RatPlan) – see below – empowerment initiatives as well as the deregulation (or re-regulation) of the industry could have far-reaching consequences for existing service stations. Key among these consequences are the likely demise of many marginal outlets as well as mounting pressure to trim the number of low volume rural service stations.

The RatPlan was a voluntary agreement entered into in 1960 by the government, the oil industry and the Motor Industries Federation (MIF) – now the Retail Motor Industry (RMI) – representing the service station industry (SBAB 2001). It remains the cornerstone of the fuel retail sector regulating current participants and new entrants alike. The RatPlan imposed a limit on the number of service stations in each geographical area, thereby restricting access to the retail market. It became impossible for new companies to enter

the market freely and unnecessary for existing market participants to compete for market share. Vertical integration (that is, oil companies owning service stations) is prohibited. Sales of fuel on credit are not allowed, as this will narrow retailers' profit margins. The installation of self-service facilities is prohibited in order to protect jobs. Together with RatPlan, government introduced price controls. It became illegal to sell petrol at any price other than the government-approved price. There were fixed margins for oil companies and for dealers and no discounting of these margins was allowed. The RatPlan is still in force today though its scrapping is anticipated by many in the industry.

The retail fuel sector forms the backdrop for an epic battle of wills between society's most powerful forces. Here, government, multi-national corporations, small business and the labour movement mix in a cauldron of vested interests. The consequence, more often than not, is the continuation of the prevailing status quo. Change, as can be seen from the minuscule quantity of legislation emanating from the department of mineral and energy affairs between 1994 and 2001, has been extremely slow coming.
The sector nonetheless is a glamorous one and remains a tantalising prospect for empowerment initiatives, in spite of a harsh trading environment and repeated business failures particularly by new entrants.

The fuel retail sector can essentially be broken down into four key constituents: the oil companies, the retailers, the consumers and the petrol attendants.

2. The oil companies

The overwhelming majority of South Africa's 4 900 service stations are associated with the 'Big Five' of the industry: Shell, BP, Caltex, Engen and Total. Almost 90% of the fuel outlets one sees along national highways or scattered across the towns and suburbs of the country are aligned to one or other of these five major companies. Smaller companies such as Tepco, Excel and Sasol supply only around 200 sites – or less than 5% – in all. Sasol, however, has indicated it intends establishing 500 new retail sites by the end of 2003. This development is anticipated with dread by many retailers who fear a major shake-up in the sector.

As classic examples of multi-national corporations, the oil companies are powerful and highly-resourced centers of strategic thinking, institutional know-how, international experience and raw economic strength. This already formidable presence has been artificially exaggerated as a consequence of South Africa's apartheid history, specifically the need for petroleum products in the face of an international embargo. Government has been quick to regulate to guarantee strategic supplies. Collectively, the oil companies wield enormous influence over the sector as well as over the entire economy, setting benchmarks for corporate citizenship and engaging in social and community interactions on many levels. As we have said, every commodity has the imprint of fuel cost while the fiscus itself leans heavily on the large chunk of tax income it derives from the sector.

Conveniently, the oil companies do not compete with one another as they do in many countries around the world. Consumers generally couldn't care less whether they put BP or Caltex into their petrol tanks. This means the oil companies are more often concerned with their image and with branding than with the product itself.

Table 2.2: % Share of volumes for Oil Companies of Service Stations, 2001

Oil Company	%
Afric Oil	0.3
BP	16.1
Caltex	18.1
Engen	25.6
Exel	1.5
Sasol	6.5
Shell	17.9
Zenex	1.8
Total	12.2

Source: SBIB, 2001

While the oil companies are not allowed to own service stations (other than a small handful which predate the regulations), they frequently do own the land and often the equipment that is leased either to franchisees or to independent dealers. The oil companies take a wholesale margin off the petrol price while transportation and delivery levies are nipped off at source. Cash is paid upfront for fuel by service station owners or managers, often amounting to more than a million rand a month for an average outlet.

Prior to 1954, all fuel consumed in South Africa was imported in refined form and distributed by four companies acting as wholesale marketers, namely BP, Shell, Mobil and Caltex (SBAB, 2001). In a bid by the apartheid government to circumvent international sanctions against South Africa, a costly coal-based synthetic fuel programme was initiated and resulted in the creation of Sasol 1. This was expanded in 1982 and 1983 (Sasol 2 and Sasol 3) and 1987 (Mossgas). The Strategic Fuel Fund Association was created to administer the acquisition of the South Africa's crude oil stockpile. The following refineries currently refine crude oil in South Africa: Genref (Trek, Sonap and Engen), Sapref (Shell, BP), Calref (Caltex), and Natref (Sasol, Total) (SBAB, 2001).

The additional cost of beating the oil embargo was passed on to consumers via the Equalisation Fund levy, which was managed by the Central Energy Fund and controlled by the ministers of minerals and energy and of finance in accordance with the Central Energy Fund Act of 1977. Although the need to finance premiums on imported oil has fallen away, the Equalisation Fund is still used mainly to fund fire-fighting and security projects, payments to Mossgass and Sasol and the temporary financing of margin increases.

The Wholesalers Margin means the oil companies can expect a 15% return on capital, which is low in comparison to most sectors but the returns are earned in a low-risk (regulated) environment (SBAB, 2001). While prices are fixed in the retail market, in the wholesale market these remain negotiable. In addition to the margins and levies, the oil companies secure additional income from rental, franchising and leasing agreements with the retailers. The sector is, however, capital intensive and overall fuel demand in South Africa has been static for several years.

3. The retailers

In most sectors of the economy, small businesses with a turnover in excess of R1-million per month would generally rely on at least one assistant manager. In the service station business, this is not the case. Most of South Africa's 4 900 service stations are run by individual owners or managers with 11 attendants assisting at the pumps. Dealers can expect to work in excess of 80 hours a week. As the Retail Margin is fixed by the government, gross profits are directly related to pump volumes.

The average South African service station pumps around 250 000 litres per month. About 80% of service stations are in the 150 000 to 300 000 monthly litres sales category and the owners are equated in negotiations with government to deputy director-level managers (SBAB, 2001).

Roughly half of all service stations are owned and operated by independent dealers (DODO: dealer owned, dealer operated) while half are franchisees who pay rent to the oil company for the lease of the property but who operate the site themselves (CODO: company-owned, dealer operated). Only a handful (0.003%) are company owned and company operated sites (COCO). The oil companies naturally have greater authority over sites they own than over the DODO outlets though the ultimate sanction – cutting off supplies – remains with the oil companies. Dealers are entitled to swop suppliers, though this is a rare occurrence.

Petrol stations, as we have mentioned above, have become increasingly diverse commercial sites and rely on income from retail, banking and other services. This reflects a worldwide trend of alternative profit centers at service stations. In South Africa these alternative profit centers include postal services, convenience stores, workshops, dry cleaning, lotto tickets, bank terminals, restaurants, bakeries, fruit and vegetable sales, car rental and other types of diversification. At one petrol station surveyed by RISE there was even an attorney's office operating out of the site while a laundrette and a video rental store were also present at other petrol stations. 'There is a clear shift from the core business, the sale of fuel and related products and services', according to a South African Chamber of Business study in 2001 (SBAB, 2001). Most retail fuel outlets are open 24-hours, an obligation many dealers feel is imposed upon them by the oil companies. This became clear from dealer submissions to the working group during the course of this investigation.

Petrol is supplied to resellers on condition they adhere to the provisions of the regulations concerning retail price maintenance. Competition by price-cutting is prohibited, as is the granting of any benefits to end-users of petrol sold via service stations. Any form of price discounting may result in a service station's supplies being cut off. This is partly why new entrants to the market have been unable to gain market share. They have not been allowed to undercut competitors or incentivise consumers.

Levels of management expertise, in spite of this being a relatively highly educated group[1], are low while efficient business practices are rare. According to a recent evaluation of the operational and managerial efficiency of the service station industry, less than half (42.55%) of dealers use a computerised accounting system, almost 80% do not compile proper budgets and the majority do not have up-to-date sales records (SBAB, 2001).

Only a small number of service station owners are able to track fuel sales by the litre and productivity levels of attendants on a daily basis and the sector is generally characterised

1 In the RISE survey, 9 of the 25 owners/managers surveyed had degree qualifications.

by insufficient marketing management, poor record-keeping and inadequate overall controls. This is not because owners or managers can't be bothered. As one report indicates: 'Most owners or managers barely have the time to manage their businesses. Their time is mostly consumed with day-to-day crisis management leaving little if any time for planning, organising people and activities, motivating and controlling the business' (SBAB, 2001).

The retail margin is determined by the Department of Minerals and Energy on the basis of the actual costs incurred by a sample of representative service stations. The recent volatility of both the oil price and of the rand/dollar exchange rate have added new demands to already hard-pressed dealers. Gross margin pressures often require serious cost savings to maintain acceptable levels of return (SBAB, 2001). Despite the difficulties experienced by particularly the smaller retail fuel outlets, the industry remains an attractive option for new entrants, leading to an often unacceptably high goodwill price being offered and many outlets being over-capitalised right from the outset.

During 1997, the Motor Industries Federation (MIF) embarked on a negotiating process with the Department of Mineral and Energy for a possible increase in the retail margin for petrol. This was done in the light of the last retail margin adjustment being made on 5 October 1995. The SBAB was contracted to evaluate and oversee the process as well as interpret the information gathered and to compile a report. As a result, the retail margin was adjusted in November 1997 and then in February 1998.

Since 1999, a retail margin investigation to determine any adjustments has been done on an annual basis. The random sample now includes 100 service stations from across the country. Before the commencement of the surveys, the dealer organisations (FRA and SAFDA) negotiate certain elements (eg. entrepreneurial compensation, owner's salary) to be included in the retail margin module.

The government controls the price of petrol and therefore it is the government's responsibility to foresee that all the cost factors of service stations are addressed annually to determine the retail margin adjustment to refund service station owners in respect of increased cost. The present retail margin model consists of a representative sample of 100 service stations in terms of locality and turnover. The model takes into account the actual driveway related gross profit and operating expenses, plus an owners' compensation for any specific financial year. The over or under recovery per litre sold is calculated by dividing the surplus or shortfall by the total annual litre sales.

The results of recent surveys conducted by the SBAB indicate that rentals have increased from R64 373 in 1999 to R83 665 in 2000 and R98 891 in respect of smaller service stations selling less than 200 000 litres per month. This reflects an increase of 34,9% over the three year period. The rentals of stations selling 200 000 to 250 000 and 250 000 to 330 000 have increased by 30,18% and 19,71% respectively. With regard to all service stations being investigated, rental as a percentage of gross profit has increased from 12,48% in 1999 to 15,95% in 2001. The SBAB norm for fuel retailers is 13,33%. Rental represents 16% of all operational expenses and is the second highest cost following salaries and wages. Gross profits of fuel retailers were 10,3% in 1999, 9,1% in 2000 and 7,5% in 2001 (SBAB, 2001).

From these results it is evident that fuel retailers' profit margins in recent years have

become very marginal, according to the Small Business Advisory Bureau. It adds that higher rentals and franchise fees from the oil companies will make things worse.

4. The consumers

Few, if any, South Africans have nothing whatever to do with the network of petrol service stations that occupy a prominent place on virtually every major arterial road and thoroughfare from one end of the country to the other. Even if individuals do not own or fill their cars with fuel, every other vehicle on the road is obliged to make regular stops for re-fuelling. Buses, coaches, trucks and minibus taxis are frequent visitors while their occupants make common use of the banking services and food and drink outlets which are a feature of most major outlets. In many cases, and particularly in the rural areas, petrol stations are meeting points, places to access information or serve as communication hubs. Consumers can often buy everything from wood, paraffin and cellphone vouchers to newspapers, bread and fresh milk.

As the overwhelming majority of South Africans do not have access to bank-accredited fuel purchase cards, the bulk of sales are conducted on a cash basis. The most frequent transaction, according to a submission to the working group from the Fuel Retailers Association, is about 20 litres or around R50. Only a small minority of service station visitors tip attendants making this source of income only a tiny proportion of attendants' take-home pay.

In 1996, there were an estimated 6,3 million vehicles on South African roads. This means that an average service station sells fuel to about 13,000 vehicles (SBAB, 2001).

5. The petrol attendants

Between 50,000 and 55,000 people work on the forecourts and behind the tills of the country's service stations. The minimum wage, as stipulated in the bargaining council agreement (2002) for the sector is R4,65 an hour or R209,25 a week in the urban areas and R3,48 an hour or R156,60 in the rural areas (see *Government Gazette*, No 23421, 31 May 2002). The work of forecourt attendants is ranked within the industry as even more menial than that done by domestic workers and they are accordingly paid less (a domestic worker in the sector earns R5,70 an hour according to the most recent bargaining council agreement). On top of their basic wages, less deductions, petrol attendants surveyed in the RISE survey earned an average of about R75 a week in tips.

According to the Small Business Advisory Bureau, the average weekly wage currently being paid in the sector is R378 (the RISE survey indicated a mean weekly wage of R270.30) and the national contribution of the fuel service station industry to wages amounts to just under R1-billion. One independent report into the industry reported unambiguously that 'the minimum wage for pump attendants is too low and that certain adjustments to wages of forecourt staff are inevitable. These changes will need to be considered in future adjustments and should preferably be affected during times of price decreases. Once the level has been adjusted, wage increases should however follow normal inflationary patterns' (SBAB, 2001).

There is no distinction between grades of petrol attendants, though many dealers and managers do pay their longer-serving staff extra, give bonuses or deem cashiers to hold

more responsible positions (and therefore earn slightly more) than forecourt workers. Over the sector as a whole, however, there is little differentiation between attendants. Other than promotion to cashier, there is no career path and no opportunity for advancement within the service station specifically or within the industry as a whole. It is doubtful that there has ever been a petrol attendant who has gone on to own or even manage his or her own service station. Following its 2001 investigation into the fuel retail sector, the Small Business Advisory Bureau noted that 'a realistic plan of action has to be developed to build career paths for retail staff such as driveway attendants' (SBAB, 2001).

Some petrol attendants receive pre-employment training and a few receive training during employment. By far the majority, however, do not receive any training on an on-going basis. Attendants are often hired off the street and often no attempt is made to check references or work records or even to keep personal details about the employee, their families, their place of residence, their personal circumstances or their productivity levels. Feedback sessions for petrol attendants on their work or future by managers or dealers are uncommon. Employment contracts are scarce. Work-related and safety information is provided by oil companies and even by dealers in the form of handbooks and manuals. Surveys suggest it is seldom that this knowledge is tested, compounded or added to in any meaningful way. Almost 80% of attendants questioned in the Petrol Station 5 Safety Project survey had not received any form of crime awareness training (RISE, 2002).

Petrol attendants fall under the Motor Industry Bargaining Council's Main Collective Agreement along with an extremely wide range of categories of employee (232 000 people fall under the agreement in total). These include drivers, tyre industry workers, forklift truck operators, garage workers, exhaust fitters, body shop assistants, machine setters and service supply salesmen. (The Collective Agreement can be found in *Government Gazette* No 23421, Vol 443, 31 May 2002.)

Only a low percentage of petrol attendants are unionised with 16% of attendants participating in the RISE survey being members of a recognised trade union. The largest union joined by attendants is the National Union of Metalworkers (Numsa), which is affiliated to the Congress of South African Trade Unions (Cosatu). Levels of union organisation or activity on the forecourt are very low. According to the RISE survey, more than two thirds of the 125 attendants said they either weren't aware of a visit to the petrol station by a union representative in the last six months or that no representative had visited. It is understood that part of the reason the petrol attendants suffer such a menial ranking and low priority within the bargaining council is due to their small number and also the difficulties of organising 50 000 people scattered the length and breadth of the country.

Working conditions and industrial relations disputes are common in the industry. In July 2001, Numsa and the Retail Motor Industry organisation confronted each other over the conditions of employment and the wages of petrol attendants. Numsa claimed the employers' organisation was 'continually making 'unsubstantiated excuses' that the wage increase for the workers was dependent on government increasing the petrol profit margin'. Numsa argued that despite the national petrol price increment, petrol attendants' working conditions 'have got worse in the past five months since several petrol hikes and installations of lotto machines and establishment of car washes' (COSATU, 2001).

Petrol attendants are covered (in theory) by the Occupational Health and Safety Act, though visits by inspectors or government officials to check on conditions are rare and seldom followed up in any significant way. Of the 125 attendants interviewed in the RISE survey, only 24 said they were aware of visits by health and safety inspectors in the preceding six months.

With many petrol attendants allowed little more than a small recreational area or even a lean-to frequently under-heated (due to the dangers of working near flammable liquids) and poorly-lit, working conditions are often of an extremely poor standard. As most petrol stations are open for 24-hours, attendants are required to work alternate nightshifts. At many outlets, few customers visit in what is known as the 'dead time' between 11pm and 4am. This means long periods of boredom, inactivity and often sleep during working hours. According to the RISE survey, almost a fifth of the petrol stations surveyed did not provide a sheltered structure for attendants on duty (n=5) even though they were all 24-hour operations. Eight of the 25 stations surveyed did not provide staff-only areas.

It is incorrect to extrapolate data from the RISE survey nationally, but the demographic profile of the petrol attendants is worth noting. Remembering that 125 attendants were interviewed and that an additional 25 interviews were conducted to confirm data, the mean age of the attendants was 29.1 years with most falling between the ages of 18 and 35 (RISE, 2002). Almost half had matriculated and 38% had worked at their current petrol station for less than six months. The attendants were mostly male (87%), mostly African (92%) and mostly had Xhosa as a first language (64%). Close to a third were single parents while 73% had three dependants or more. About 65% of the attendants lived at least 8 kilometres or more away from their place of work with 70% travelling to work by taxi.

Sixty-eight percent of attendants reported to RISE that they had not been previously employed at another petrol station prior to employment at the current one. Over half of the attendants over 41 years had been employed at another petrol station while almost 30% of the sample had been employed at the current station for between one and two years. Among the 40 attendants who had been employed previously at another petrol station, the two most common reasons for leaving were that remuneration levels were too low or that problems had occurred around the management of human resources.