

OIL AND GAS INDABA

Overview of Wholesale and Retail Sector of the Value Chain

The South African Fuels Retailing Sector

10th August 2010

Mr. Reggie Sibiya, CEO of Fuel Retailers Association





Agenda

Presentation Content

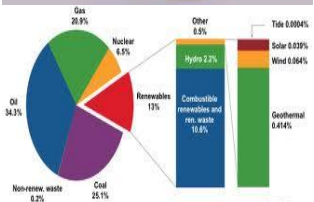
Overview of the Fuel Retailing Sector

Opportunities in Fuel Retailing Sector

Challenges

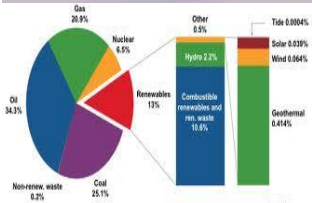
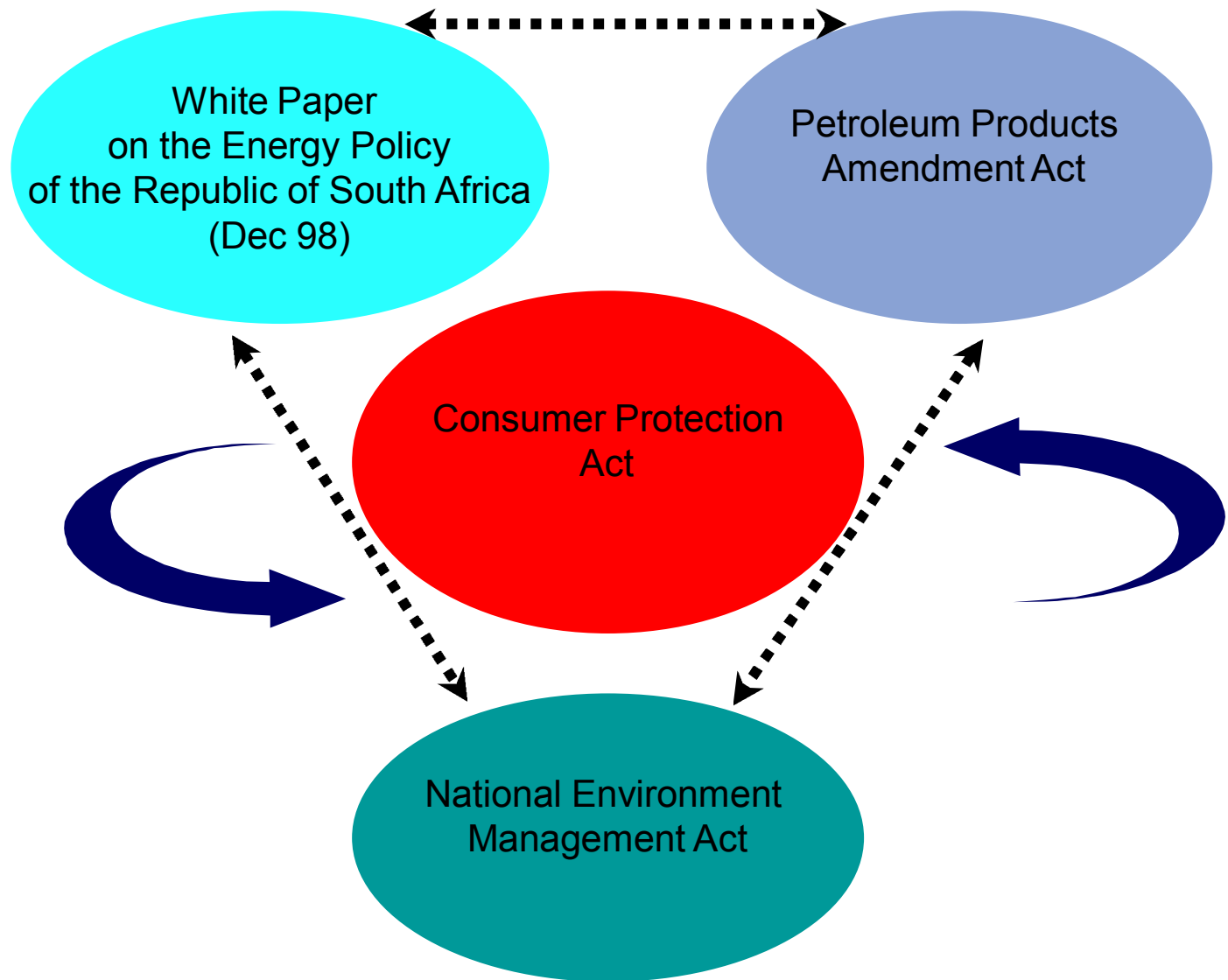
Way forward

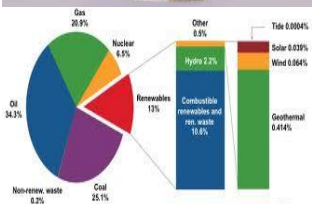
Questions & Answers





The are a number of the policy and legal instruments governing this sector





It is important to note that it is not all sectors of the liquid fuels industry that are regulated

	Retail	Commercial
Petrol	Regulated	Unregulated
Diesel	Unregulated	Unregulated
LPGAS	Regulated	Regulated
Non-fuel products	Unregulated	Unregulated

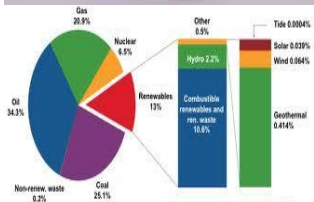
From a regulatory perspective, having regulated and unregulated activities within one business, incentivises cost aggregation into the regulated business and cross subsidisation.

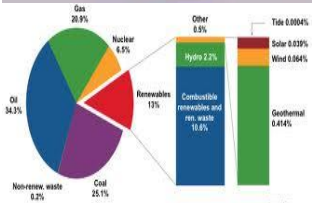




Global Retail businesses are managed against a Market Phase Framework

<i>Phase 1</i>	<i>Phase 2</i>	<i>Phase 3</i>	<i>Phase 4</i>
Regulated Limited Supply	Deregulating Increasing Supply	Deregulated Free Supply	Deregulated Excess supply
Limited Competition	Emerging Competition	Intense traditional Competition	Non-traditional Competition
Under pumped	Majors Expand Networks grow	New volume players	New entrants
Regulated Pump Prices	High Pump Prices	PRICES ↓ Customers Demanding Price Sensitive	Networks decline VOLATILITY →
Focus on brand, quality, access	Focus on brand, quality, CONVENIENCE		
All sites make money	Most sites make money	Better sites make money	Cluster sites make money





Economic drivers change as markets evolve

Phase 1	Phase 2	Phase 3	Phase 4
Limited Competition	Emerging Competition	Intense traditional Competition	Non-traditional Competition

WHOLESALE

RETAILER

Market Economics

Site Economics

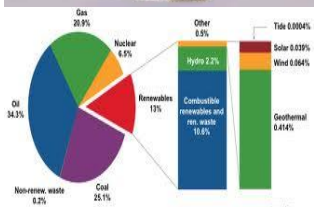
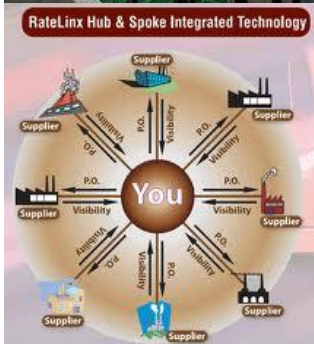
Market Share/Unit Margins
Number of Sites
Branding/Marketing
Operational Competence
Government/Authority
Relations

Competitive Pricing
Network Efficiency
Site Execution
Operational Excellence
Overhead Costs

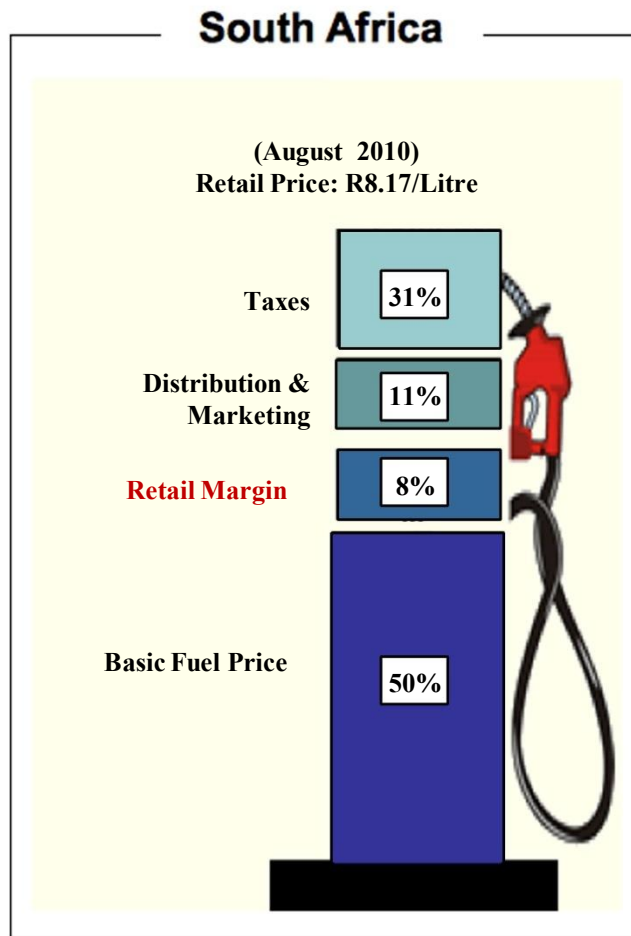
FUEL RETAILERS' ASSOCIATION

Mr. Reggie Sibiya





Pump price build up of Unleaded Petrol 95

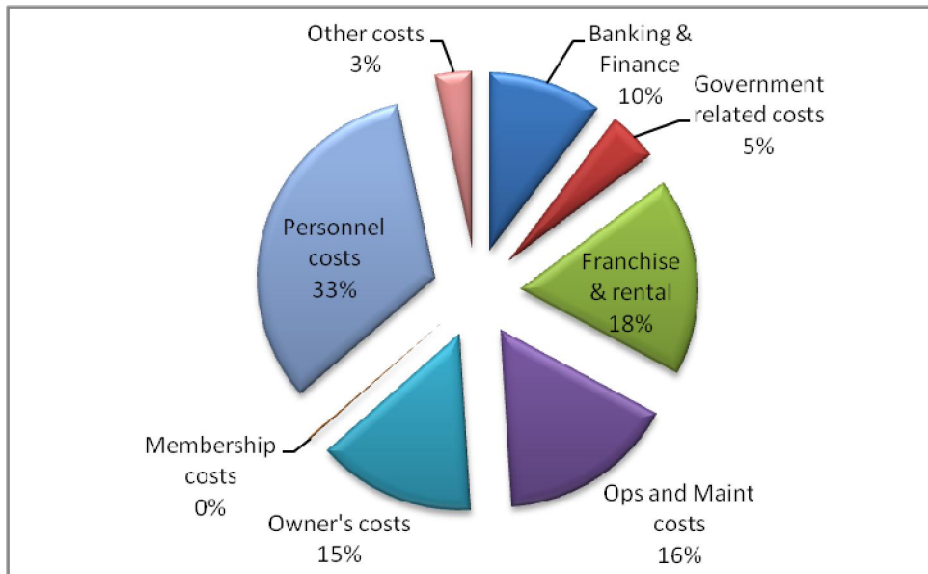


Whether the price is regulated or not, it is important to note that there are many players in the liquid fuels value chain





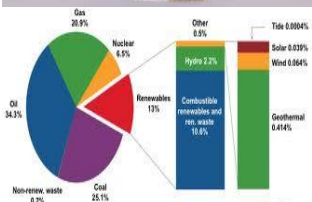
There are many hands that derive value from the retail margin and not all of it is for the retailer's account



For some reason, these new birds didn't seem as interested in William's bird seed.

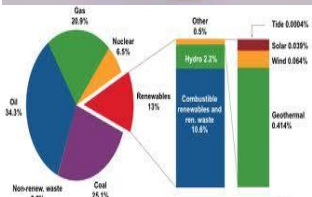


- The value that accrues to the retailer is not as high as it may seem
- There are a number of “vultures” waiting for the “kill”
- Unregulated Costs vs. Regulated Margin
- In the case of the franchised outlet, the return of “retailer's investment” is difficult to define





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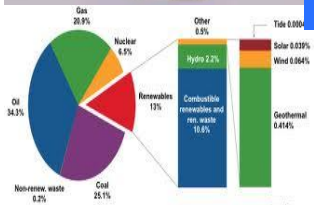
Opportunities in Fuel Retailing Sector

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Although franchising lowers barriers to entry for especially HDSAs, it brings with it a number of challenges

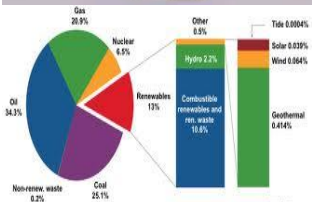
Business Categories	Identified Franchisors #	Total number of outlets 2006 #	Total number of outlets 2004 #	Movement 2004 to 2006 %
Automotive	44	2240	1883	18.98
Building, Office and Home Services	51	1431	1117	28.14
Business to Business Services	39	1094	763	43.38
Education & Training	41	1886	1574	19.85
Entertainment & Leisure	20	1269	767	65.45
Fast Food	64	4603	3464	32.88
Health, Beauty & Body Culture	20	650	432	50.50
Personal Services	14	614	229	168.26
Petroleum Retailing	6	4582	4651	-1.48
Real Estate Services	21	1299	733	77.24
Restaurant	68	1398	1383	1.08
Retail	58	3783	3418	10.68
Other	23	1020	420	142.78
- Industrial	8	113	67	68.66
- Telecommunications	7	628	265	136.98
- Financial	8	279	88	216.67
TOTAL	469	25870	20834	24.17

30% of sites are Retailer Owned, 70% are Company Owned

FUEL RETAILERS' ASSOCIATION

Mr. Reggie Sibiya





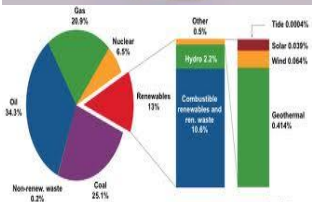
Petroleum Products Amendment Act has created a number of opportunities for retailers

- Licensing all petroleum activities
 - Prohibits vertical integration
- Introduces a balance of power between retailers & wholesalers
 - Enforces arbitration
- Special provisions for
 - Empowerment – Charter annexed
 - Full service (protection of jobs)
- The proposed pricing framework could bring better value for retailers, especially independent retailers
 - Retail margin would include an explicit component for fuel-related asset return





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The current pricing framework that is under review has a number of challenges, which requires attention

Challenges

Black Retailers Businesses
Highly Geared

Black Retailers occupying mainly
the 30% low volume sites. These
sites fall below the BSS volume of
297KI

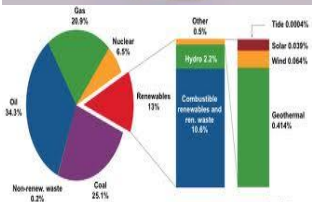
Uneven treatment of RORO vs.
CORO sites. Black Retailers not
accessing RORO sites – land
values high & owned by non BEE
Property Developers

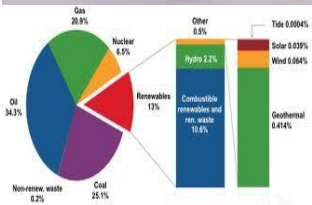
Goal

Current BSS cost base is
to drive efficiency – does
not take into account
high gearing.

Reduce number of retail
sites by 20-30% and
achieve “equilibrium”
before deregulation.

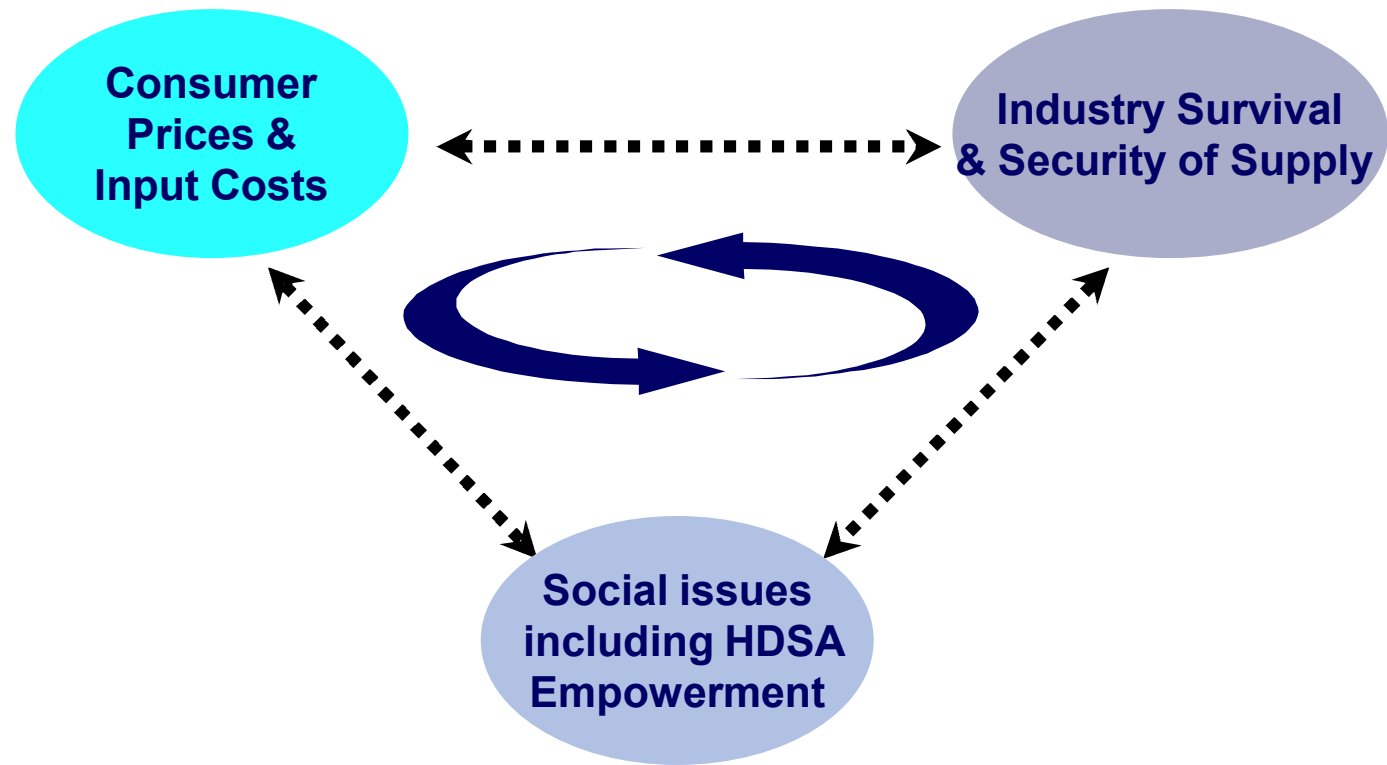
Encourage ownership
and prevent vertical
integration





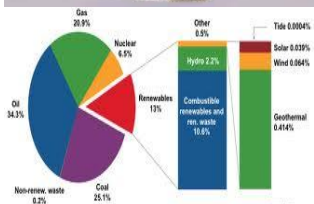
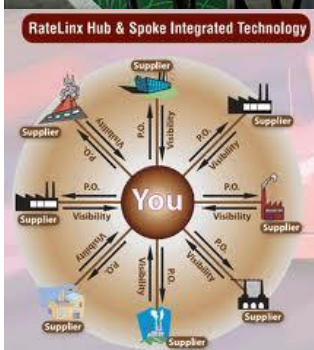
Balancing act

In changing the system, it is important not to promote one national priority at the expense of others. Sometimes regulators seem to focus only on one side of this triangle



The biggest challenge remains regulatory uncertainty. Until Task 141 is concluded, we are not sure how retailer margins will affect HDSA





KEY CHALLENGES TO OPPORTUNITY CREATION

Summary of Impacts & Opportunities

TASK 141

- DEPENDING ON THE EFFICIENCY MEASURES, THERE MAYBE A NEED TO RATIONALISE UP TO 30% OF THE NETWORK
- THIS COULD INCLUDE 60% OF RURAL NETWORK

SITE & RETAIL LICENSING

- EFFECTIVE REGULATION
- INVEST IN A PROPER IT SYSTEM (WHAT CANNOT BE MEASURED CANNOT BE IMPROVED)
- ENFORCEMENT OF COMPLIANCE (VIGILANCE IN SITE CHANGEOVER PROCESSES)
- NTI – FOCUS ON BOTH SITE & RETAIL LICENSES

FINANCING

- ACCESSIBILITY
- FAVOURABLE TENURE & CREDIT TERMS
- SUPPORTIVE CULTURE
- GOODWILL VALUATION

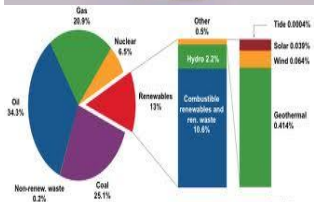
SUPPORT CULTURE

- TERMS OF CREDIT FOR HDSA'S (FROM THE CHARTER)
- EFFECTIVE TRAINING STRUCTURES
- PARTNERSHIPS WITH ORGANISATIONS LIKE FRA & THE SETAS (FRA TRAINING ACADEMY)
- MENTORSHIP PROGRAMMES
- OIL COMPANIES TO PRIORITIZE GIVING HIGH VOLUME SITES TO BEE
- PRIORITIZE DEMOGRAPHICS WITHIN BEE





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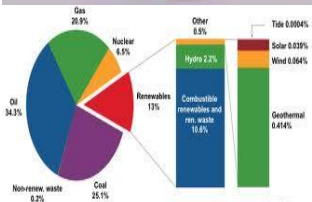
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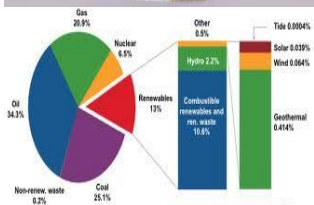
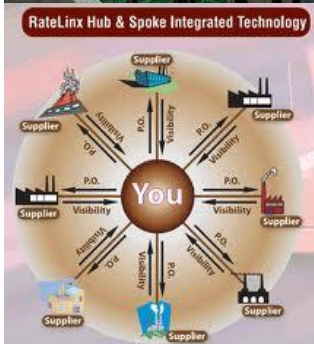
The business of business is generating profits

- Greater clarity, based on greater participation, is required for the continued survival of the retail industry
 - DoE needs to expedite the finalisation of the Task 141
- Regulatory certainty will increase confidence of investors
- Before concluding a purchase, incoming retailers need to conduct proper due diligence
- Make prudent investment – make sure the business can generate desired profits
- There are no short cuts – study the venture
- Participation in industry forum activities is key to your success





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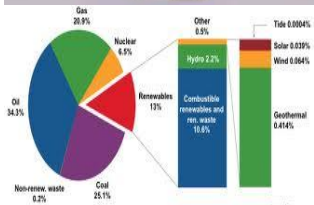
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Q&A

