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Exploring an optimal franchise agreement model for the fuel retail industry in South Africa

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A research proposal submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management Administration

Johannesburg, 2024

DECLARATION

I, Tshidi Sakoane, declare that this research article is my own work except as indicated in the references. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

ABSTRACT

This study explores the complex landscape of fuel retail franchise agreements in South Africa, highlighting the multifaceted challenges and strategic imperatives facing both franchisors and franchisees. The research underscores the importance of sustainable partnership models and adaptive business practices amidst a dynamic market environment. Key findings reveal a complex interplay of regulatory frameworks, market dynamics, and consumer trends, which significantly influence fuel retail franchise agreements. The study emphasises the need for franchise agreements that prioritise flexibility, clarity, and adaptability to ensure mutual benefit and long-term viability.

The research contributes to understanding the complexities and challenges within the fuel retail industry, providing valuable guidance for stakeholders. It informs strategic decision-making and offers recommendations for improving franchise agreements, ensuring they meet the evolving needs of the market. The study also highlights limitations, including the specificity of the South African context and the dynamic nature of the industry, and suggests areas for future research, such as the impact of emerging technologies and consumer preferences on franchise operations.

Keywords: Franchise agreement, fuel retail industry, optimal model, franchisee, franchisor

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LIST OF ACRONYMS

CORO	**Company Owned and Retailer Operated**
DEA	**Department of Environmental Affairs**
DMRE	**Department of Mineral Resources and Energy**
EC	**Entrepreneurial Compensation**
EV	**Electric vehicle**
FRA	**Fuel Retailers Association**
NCCRP	**National Climate Change Response Policy**
PPA	**Petroleum Products Act**
RAS	**Regulatory Accounting System**
RBV	**Resource-based view**
RORO	**Retailer Owned and Retailer Operated**
SAPIA	**South African Petroleum Industry Association**
SFFR	**Sustainable franchisor-franchisee relationship**

CHAPTER 1. INTRODUCTION

1.1 Statement of purpose

The fuel retail industry in South Africa is at a turning point, with changing market conditions, complex regulations, and challenging operating conditions. The industry is facing several challenges, including heightened competition, evolving consumer preferences, and changing regulations. These challenges necessitate the development of a franchise agreement model that can effectively manage the risks and complexities inherent in this industry. This study aims to explore and propose a practical and adaptable franchise agreement model tailored to the specific needs and dynamics of the South African fuel retail industry. The primary research question guiding this study is: What are the fundamental components of a franchise agreement model that can optimize mutual success and benefit for franchisors and franchisees in the fuel retail industry in South Africa?

1.2 Background of the study

Within the framework of this research, the phrase "franchise agreement model" denotes the legal structure that regulates the partnership between franchisors, usually oil companies, and franchisees, operators who run the fuel retail sites. The franchise agreement model includes a wide range of topics, such as funding agreements, operational processes, branding and marketing, regulatory accounting system (RAS), and relationship management. "Optimal" types of franchise agreements are those that promote value and reciprocal benefit for franchisors and franchisees, promoting continued growth and sustainability in the fuel retail industry. The “fuel retail industry” is the industry consisting of businesses that sell and distribute petroleum products, including petrol and diesel, to customers through forecourts at the retail sites, and associated convenience store commodities through convenience stores located at the retail sites.

Past studies in the field of franchising have looked at a range of aspects of franchise agreements, such as the terms of the contracts, the governance frameworks, and the outcomes related to performance (García-Herrera & Llorca-Vivero, 2010; Bui et al., 2022). Research has examined the economic theories, such as resource dependency theory, agency theory, and transaction cost economics, that underpin franchise agreements (Jang & Park, 2019; Badrinarayanan et al.,2016). These studies provided insight on the benefits, threats and governance structures that are inherent in franchising arrangements. Furthermore, research focused on the fuel retail industry has probed at the opportunities and challenges that market players face, ranging from customer behaviour to regulatory compliance (Jang & Park, 2019). The operational dynamics of fuel retail stores are impacted by market competition, regulatory frameworks, and innovation in technology (Ghani et al.,2022; Hizam-Hanafiah et al., 2023). Such has been demonstrated through research, highlighting the necessity for flexible and efficient franchise agreement models. There is however a gap in the literature, regarding how these agreements can be adapted to address the specific challenges in the South African fuel retail industry. This study aims to fill that gap by proposing a model that balances legal, commercial, and operational considerations within this highly regulated market.

Four elements have been found to influence franchisee performance, according to a study by Bui et al. (2022), relationship quality, transaction cost determinants, franchisor perspectives, and franchisee perspectives. The findings of the study indicate that a key advantage of franchising is the substantial business potential it generates for both the franchisor and the franchisee, with enormous prospects reliant on collaboration. Ghani et al. (2022) found in another study that franchisor-franchisee tolerance, government support, and product and service innovation were the three growth factors of franchisors and franchisees, while according to Jang & Park (2019), fairness, autonomy, formalization, and support are essential elements for a sustainable franchisor-franchisee relationship (SFFR). According to Badrinarayanan et al. (2016), a key factor in the success of franchising endeavours is the development of brand-centric relationships between franchisors and franchisees. The key components of these relationships include

the franchisor's trade equity, knowledge specificity, and franchisee trust in the franchisor.

Despite the importance of innovation in addressing changing consumer preferences and heightened competition, franchising presents a difficult environment in which to foster and manage innovation (Watson et al., 2020). Franchisors may want to restrict their franchisees' innovative endeavours in order to maintain network consistency, hence requiring the franchisee to function inside the system's bounds set by the franchisor. Hizam-Hanafiah et al. (2023) provide additional evidence in favour of the three crucial success aspects of franchising, which are the franchisor's capability, interconnection with franchisees, and continuous innovation.

Retail licenses are not granted to manufacturers or wholesalers in South Africa, unless they are needed for training purposes (DMRE, 2023). Through the Department of Mineral Resources and Energy (DMRE), applications are submitted for retail and petroleum site licenses. Seven organisations in the fuel retail industry are in charge of distribution centers and storage terminals located across the country (SAPIA, 2022). Consequently, these organisations affect approximately 4000 fuel retail sites that are representative of all the stakeholders in the petroleum industry, including dealer- and company-owned companies. Under contract, branded fuel retail sites are essentially operated by franchising the site to an independent dealer, the franchisee, who then supplies the site with fuel directly (SAPIA, 2022). The Department of Mineral Resources and Energy regulates fuel prices in South Africa, with taxes and levies accounting for one-third of the total (DMRE, 2023). It considers a number of elements when determining the maximum retail price for both diesel and petrol. The profit margins that fuel retail franchisees are eligible to generate are additionally defined by the DMRE, which influences the profitability of franchisees. Thus, there is a close connection between fuel price control, crude oil importation, and fuel retail franchise agreements.

According to Jang & Park (2019), factors that affect the franchisor's intention to buy more franchises, voluntary partnerships (such as word-of-mouth, referrals, and recommendations), free-riding behaviours, and performance metrics that

include profits, revenue, and efficiency should be the focus of future research. As factors that can improve franchisee success, Bui et al. (2022) propose a thorough examination of the significance of intangible assets from both the franchisor's and the franchisee's perspectives, as well as the effect of franchisor support on the ability of franchisees to innovate, take risks and experiment, be competitive, understand their customers, and the relationship between franchisee market orientation and franchisee performance. According to Ghani et al. (2022), additional research on the development of complex franchising business models and their relationship to strategy and key elements of success should be explored. Therefore, factors such as the goals and objectives shared by the franchisor and franchisee, the current condition of the market, and the regulatory landscape would largely determine the optimal franchise agreement model for the fuel retail industry.

1.3 Research problem

The South African fuel retail industry requires a franchise agreement model that can navigate regulatory challenges, ensure compliance, and enhance the profitability and sustainability of both franchisors and franchisees. Despite the critical role that franchise agreements play in defining the relationship between these parties, existing literature reveals that there is no standardised model that effectively addresses the unique needs and dynamics of this industry. While various studies have explored franchise models in general (Kim & Choi, 2022; Jang & Park, 2019), there is a lack of comprehensive research focused specifically on the fuel retail sector in South Africa, particularly concerning how these agreements can effectively manage fluctuating fuel prices, evolving consumer behaviors, and operational risks.

The current franchise agreements often fail to navigate the complexities of regulatory requirements, fluctuating fuel prices, evolving consumer behaviours, and operational risks, leading to strained relationships and suboptimal business outcomes for both franchisors and franchisees (Miller, 2023; Lanchimba et al.,2021). This research investigates the essential components of such a model,

with the goal of providing a practical framework that can be implemented within the industry.

1.4 Research questions

The study seeks to answer the following research questions:

1. What are the major regulatory and operational challenges faced by franchisors and franchisees in the South African fuel retail industry?
2. What components should be included in a franchise agreement model to enhance mutual success and benefit for franchisors and franchisees in the South African fuel retail industry?

1.5 Research objectives

The primary objective of this qualitative study is to explore and propose a franchise agreement model that addresses the specific needs and challenges of the South African fuel retail industry. This model aims to enhance the mutual success and benefits for both franchisors and franchisees by addressing the following specific objectives:

1. To identify and analyze the major regulatory and operational challenges faced by franchisors and franchisees within the South African fuel retail industry.
2. To determine the essential components that should be included in a franchise agreement model to ensure it effectively mitigates these challenges and promotes mutual success.

1.6 Rationale

The franchise agreement model must adapt to the many complexities and changes that the fuel retail industry in South Africa faces in order to maximize the profitability of both franchisors and franchisees. These issues include failing to conform to the Petroleum Products Act (PPA), where there has been a concerning increase in the sale of illegal and illicit fuel (Majola, 2021); increasing

pressure on fuel prices and solicitations for deregulation from the South African government (Majola, 2022); adoption and implementation of the RAS for the Petroleum Sector (Majola, 2023); higher operating costs as a result of load shedding (Majola, 2022); and the accelerated adoption of mobile technology including associated services (The Mercury, 2019).

The fairness of franchise agreement models appears to be a topic of continued debate, particularly in consideration of the industry's ever-changing dynamics. The primary focus of the research is dedicated to exploring intangible assets from both the perspectives of the franchisor and the franchisee, as well as the impact of franchisor support on franchisees' drive for innovation, risk-taking, and experimenting, as well as their capacity for competitiveness and understanding of customers. Additionally, the research examines the connection between franchisee performance and market orientation. This study will contribute to the ongoing debate on franchise agreements by providing a tailored solution for this industry, with a focus on regulatory compliance, operational efficiency, and mutual profitability.

1.7 Delimitations of the study

The research is limited to exploring and determining the fundamental components of a franchise agreement model that maximizes the joint success and benefit for franchisors and franchisees in the fuel retail industry in South Africa, i.e. how satisfied franchisees and franchisors are with the current franchise agreement models, the major challenges faced by the industry and how they can be resolved under the franchise agreement, the key components of franchise success, and the potential effects of suggested changes to the franchise agreement model.

It is important to note that the scope of this research is geographically limited, as the data collection did not encompass respondents from all regions across South Africa. While this provides a focused analysis, the limitation may affect the generalizability of the findings to the broader national context. Future research could benefit from a more comprehensive geographic coverage to provide a more

complete understanding of the franchise agreement model's effectiveness across diverse regions in South Africa.

1.8 Definition of terms

a. Franchise: A contractual agreement whereby the franchisor and the franchisee work together while operating a business. To promote the sustained growth of the franchise business, franchisors and franchisees must work together (Kim & Choi, 2022).
b. Franchise agreement: A representation of a fair, honest, and uncomplicated process that sets out the franchisee and franchisor responsibilities, privileges and obligations within the partnership (Bui et al., 2022).
c. Franchisee: A licensee who pays revenue in exchange for utilizing a process, product, or service (Jang & Park, 2019).
d. Franchising: A business model in which franchisors grant franchisees access to established, profitable brands and business resources in exchange for franchisees paying franchisors royalties (Jang & Park, 2019).
e. Franchisor: The proprietor of a process, product, or service. (Jang & Park, 2019).
f. Fuel retail industry: The retailing of petroleum products in South Africa under the governing of the Petroleum Products Amendment Act of 2003 (DMRE, 2022).

1.9 Assumptions

The following assumptions inform the research:

a. Franchising is a profitable business approach for the fuel retail industry in South Africa.
b. Several market factors, including the level of competition and the economy, affect how successfully franchise agreements operate.
c. It is possible to design a franchise agreement model that reduces operational costs while ensuring fairness, transparency, and mutual success.

1.10 Chapter Outline

The research is structured as follows:

Chapter 1: Introduction. Outlines the purpose of the research, which is to explore an optimal franchise agreement model tailored to the unique challenges experienced by the fuel retail industry in South Africa. It highlights the focus on the industry's complex regulatory framework, fiercer competitiveness, and shifting customer preferences, all of which make an effective franchise agreement model essential for both parties to be successful. The research objectives, context, and rationale are presented in this chapter, with an emphasis on the necessity for a franchise agreement that fosters innovation, fairness, and sustainable profitability for franchisors and franchisees equally.

Chapter 2: Literature review and theoretical framework. Explores and consolidates existing research on fuel retail franchise agreements in South Africa, focusing on two primary questions: (1) What are the main challenges that franchisors and franchisees face concerning organisational and regulatory factors and the franchise agreement model? (2) What is the optimal franchise agreement model that ensures mutual success and benefit for both parties? The review utilizes various theoretical frameworks and empirical studies to address these questions.

Chapter 3: Research methodology. Explores the dynamics and challenges in franchise agreements within South Africa's fuel retail industry through a qualitative approach. The research approach focuses on engaging directly with key stakeholders, assuming that their experiences and perceptions, while subjective, are crucial for understanding the industry.

Chapter 4: Research findings and discussion. This chapter presents findings from interviews with industry experts, franchisors, and franchisees in the fuel retail industry, detailing their experiences and perspectives. The interviews delve into various aspects of the franchise agreement model, regulatory and organisational factors, and the potential for an optimal franchise agreement model, providing valuable insights into challenges and opportunities within the fuel retail franchise

landscape. The chapter highlights the need for updated, flexible franchise agreements that reflect contemporary market conditions, advocating for improved communication, support mechanisms, and franchisee involvement in decision-making processes. Recommendations focus on fostering mutually beneficial arrangements through clarity, adaptability, and robust support, ensuring long-term viability and competitiveness in the dynamic fuel retail market.

Chapter 5: Conclusion. The chapter synthesizes the study's findings into actionable insights aimed at improving operational efficiency and navigating regulatory complexities within the South African fuel retail industry.

CHAPTER 2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

The key objective of the research is to investigate two fundamental questions regarding fuel retail franchise agreements in South Africa: (1) the main challenges that franchisors and franchisees encounter with respect to organisational and regulatory factors, as well as the franchise agreement model; and (2) the identification of the best franchise agreement model that optimizes mutual success and benefit for both parties. Using a variety of theoretical frameworks and empirical data from the domains of fuel retail franchising, the literature review consolidates previous research on these subjects.

2.2 Background discussion

Examining multiple crucial concepts is necessary to fully comprehend the franchise dynamics in this particular industry. This is especially true when exploring how franchise agreements can be tailored to address industry-specific challenges and enhance mutual success for both franchisors and franchisees in the fuel retail industry in South Africa.

Franchise agreements are central to the franchise relationship, serving as the contractual basis that outlines the terms of the partnership between the franchisor and the franchisee. They address a number of topics, such as financial arrangements, operating standards, and rights and obligations (Malatsi, 2018). The primary challenge here is the frequent power disparity, which could allow franchisors to abuse their perceived greater control over franchisees. Ensuring fairness, support, and trust is essential to address the issue of inequality (Dube et al., 2020).

In addition to contractual dynamics, the regulatory framework governing the fuel retail industry plays a pivotal role in shaping franchise operations. The Petroleum Products Amendment Act of 2003 seeks to advance equity and the expansion of

small businesses while fostering a strong fuel industry (DMRE, 2022). These regulations, however, may have unforeseen repercussions that make compliance more difficult for franchisees and result in higher administrative costs (Leketi, 2022).

Economic factors also significantly impact the fuel retail industry. Fluctuations in the Rand/Dollar exchange rate and global crude oil prices affect fuel costs in South Africa (DMRE, 2022). The franchisees' capacity to survive and make ends meet is threatened by high operating costs that are made worse by load shedding and escalating fuel prices (Majola, 2022).

Environmental considerations are increasingly relevant in the context of the National Climate Change Response Policy's (NCCRP) recommendations for moving toward a low-carbon economy are essential. This shift has an effect on the fuel retail industry and necessitates new technology and energy source adaption (Kornelius et al., 2022).

Entrepreneurial orientation is another critical factor that influences franchise success. Financial success and market responsiveness are improved for franchisees that adopt an entrepreneurial mindset (Chien, 2024). Franchisees can better adjust to local market situations by fostering entrepreneurial orientation within the franchise agreement framework (Chien, 2024).

Finally, it is critical to strike a balance between standardisation and market responsiveness. While standardisation is a top priority for franchisors, it's becoming more and more crucial to give franchisees the freedom to adapt to changes in the local market (Chien, 2024).

Fostering fairness and trust, resolving power disparities, maintaining regulatory compliance, promoting innovation, and an entrepreneurial mindset are all necessary factors to create an optimal franchise agreement model for South Africa's fuel retail industry. To navigate the intricate economic, regulatory, and commercial aspects of the fuel retail industry, franchisors and franchisees must strike a balance between these factors to build a long-lasting and collaborative relationship.

2.3 Major difficulties in South Africa's fuel retail industry: Regulatory, organisational, and agreement factors

The nature of franchise agreements, organisational and regulatory factors, and other parameters, present both franchisors and franchisees with significant challenges in the South African fuel retail industry. Power disparities between franchisors and franchisees are frequently exposed in franchise agreements, which calls for changes to maintain fairness and trust. Even though the regulatory framework is meant to safeguard franchisees, administrative duties and compliance efforts may unintentionally become increasingly challenging. Tensions are heightened by the industry's inflow of competition, as franchisees oppose new fuel retail licenses in an effort to maintain their profitability. Furthermore, the problem of illegal fuel sales and non-compliance with the Petroleum Products Amendment Act emphasises the necessity of more stringent enforcement and collaboration amongst the stakeholders involved in order to uphold industry standards.

Fuel retailers also face additional financial hardship due to complex Retailer Activity Segmentation (RAS) model, load shedding's impact on operating costs, and fluctuating crude oil prices. Due to inconsistent regulatory policies, the RAS model, which is intended to control margins along the retail petroleum value chain, frequently results in disagreements over fair financial compensation. To guarantee sustainable growth and mutual success, franchisors must encourage innovation and franchisee independence, creating a collaborative environment that can quickly adjust to changes in the market. In this fast-paced business, keeping a competitive edge and fostering long-term franchisee-franchisor collaborations require striking a balance between standardisation and market responsiveness.

2.3.1 Regulatory factors influencing the franchise agreement

DMRE (2022) indicates that the industry for liquid fuels was initially permitted by the DMRE in 2005. The Petroleum Products Amendment Act 2003, Act 58 of

2003, outlines the objectives of the licensing framework, which include: (1) promoting an effective fuel industry for manufacturing, wholesaling, and retailing; (2) facilitating an environment that promotes effective and financially justified investment; (3) encouraging the advancement of previously disadvantaged individuals; and (4) generating employment opportunities and small businesses in the fuel industry. The fuel retail industry has seen an influx of competition, so franchisees with fuel retail licenses have been opposing the issuance of new fuel retail licenses by the DMRE. These objections have been filed with the petroleum controller, an office within the department of energy that is responsible for handling fuel licenses, and an internal review that must be approved by the minister of energy in the event that a fuel retail license is issued regardless of the objections lodged (Moosa, 2024). The profitability of the retail site and the franchise's total revenue streams from the profitable operations of its franchisees are under pressure from this heightened competition (Jang & Park, 2019). Considering this, we recognize the benefits of innovation, and the need to foster franchisee autonomy through collaboration in the innovation process so that franchisors and franchisees may create shared value (Watson et al., 2020).

According to Majola (2022), there is an alarming rise in the sale of illicit fuel in South Africa. The DMRE has received reports of illicit fuel trading and non-compliance with the PPA, which have taken many different forms. These include the sale of inferior petrol and diesel, the sale of ULP 93 to unsuspecting retailers and motorists (especially in outlying areas) at the price of ULP 95, and the non-disclosure of fuel storage facilities. Some wholesalers have additionally been known to operate as retailers, and some sites developed and/or operated without a retail licence. As outlined in the Energy Policy White Paper and implemented through the Petroleum and Liquid Fuels Charter, which was signed and adopted in 2000, the PPA aims to prevent vertical integration in the fuel retail industry in order to create an environment that is conducive to sustainable presence ownership and control by historically disadvantaged South Africans. However, non-compliance in the fuel retail industry appears to be a persistent problem that warrants close monitoring and collaboration with petroleum industry stakeholders in order to establish a public policing forum to enforce the PPA (Majola, 2021). The need of creating a sustainable franchisor-franchise relationship (SFFR) is

further highlighted by this observed non-compliance. Jang & Park (2019) identify the following as the fundamental elements of the SFFR: (1) relationship and financial satisfaction, which encourages franchisees to sincerely follow the policies, standards, and strategies of the franchisor; (2) trust, which shapes franchisees' behaviour and reduces opportunistic behaviour; and (3) long-term commitment to the franchise system. According to Shaikh et al. (2018), perceived fairness can improve relationship quality and lessen opportunism in a franchisor-franchisee relationship. Fairness also has a substantial impact on the franchisee-franchisor relationship. The study goes on to show that when a franchisor exercises non-coercive power, a franchisee is likely to view the franchisor as being fair.

Additionally, according to Majola (2023), the RAS is a model and methodology that specifies the margin in cents per litre that accrues to each identified activity along the retail petroleum value chain. It is contained in three documents: the Benchmark Service Station RAS Matrix, the Regulatory Margin Model Guidelines, and the 15 governing principles. The DMRE is in charge of all three of these documents. Since the Benchmark Service Station in the RAS Matrix was a Retailer Owned and Retailer Operated (RORO) site, Majola (2023) draws attention to the basic fault in the RAS model for Company Owned and Retailer Operated (CORO) sites. The Benchmark Service Station, however, does not take into account the fact that most service stations in South Africa were CORO sites. Majola (2023) goes on to say that the DMRE has left it up to the franchisees and franchisors to negotiate components such as Entrepreneurial Compensation (EC), which is reflected in the RAS Matrix. Considering that the petroleum industry has different business models, this has led to disputes between participants if they suppose the EC was not calculated correctly. This also shows that there is a contradiction in the DMRE regulations and the imperative policy that prohibits vertical integration, since the licensing regulations prohibit oil companies from operating retail businesses, however, the pricing regulations allow oil companies to have a profit share with the franchisee through forced negotiations on the notional EC split. The longevity of the franchisee-franchisor relationship is negatively impacted by the sense of injustice and inconsistency in the franchise agreement. In a research study, Shaikh (2016) defined fairness in

a franchise relationship as having four dimensions: (1) distributive fairness, which is the franchisee's assessment of the equity of the earnings and results it obtains in relation to its efforts and investment in the exchange relationship with the franchisor; (2) procedural fairness, which is the franchisee's assessment of the equity of the franchisor's policies and procedures that influence the allocation of results in the franchisor-franchisee relationship; and (3) interpersonal fairness, which is the franchisee's perception of the impartiality of the quality of interpersonal treatment received from the franchisor representative, and (4) informational fairness, which is the franchisee's assessment of the fairness of information regarding the franchisor's operations, products, procedures, and results.

According to DMRE (2022), the price of petrol in South Africa is directly influenced by the price of crude oil in international markets. As a result, the price of petrol is heavily influenced by both the price of crude oil and the Rand/Dollar exchange rate. Further details on the four main components of the price of petrol are provided by Stats SA (2021): (1) basic fuel prices make up 48% of the price; (2) levies and taxes account for 33%; (3) retail and wholesale margins account for 14%; and (4) storage and distribution costs account for the remaining 6%. Majola (2022) notes that all of these prices are administered under the RAS, in addition to zone differentials that set prices based on geographic district and the state levy financing cumulative price of petrol under-recoveries. According to Majola (2022), South Africa's petrol prices surpassed R20 per liter as a result of the global oil price spikes brought on by Russia's invasion of Ukraine. The fuel retail industry has been facing financial strain due to lower volume sales and price margins. As a result, the industry was already on the verge of 4000 staff reductions due to the industry's difficulties. Reducing franchisees' margins would make most service stations unsustainable, which is why there is a call for the substitution of the RAF tax with a flat-fee motor insurance in order to relieve the current pressure on the industry (Majola, 2022). Ensor (2022) concurs that the primary focus should be on evaluating the base fuel price and the levies that comprised the majority of the petrol price, rather than cutting the petrol price margins, which are already extremely thin. In current challenging market conditions, it is critical for the franchise to continue operating and being self-sufficient while waiting eagerly for

the DMRE to evaluate the fuel price. Chien (2024) emphasises the value of having an entrepreneurial mindset and being sensitive to the market in order to improve franchisee financial success. The study's findings indicate that the entrepreneurial orientation of the franchisor is perceived positively by the franchisees, and that this impression influences the franchisees' financial success, market responsiveness, and entrepreneurial orientation. According to Antia et al. (2017), franchisors rely on their franchisees' continued operations for their long-term survival. They also use a variety of governance mechanisms, like education, experience, and financial net worth, to increase their franchisees' capacity and drive to sustainable operation of their franchise businesses.

2.3.2 Organisational factors influencing the franchise agreement

Discuss the second concept using appropriate integrated references. Eskom's battle with its aging infrastructure and slow power grid capacity increase has resulted in unprecedented load shedding in South Africa. This poses a threat to the fuel retail industry and forces franchisees' operating costs to rise as a result of the money they must spend on diesel to power generators (Majola, 2022). It's critical that franchisors understand these effects, which have essentially had a disastrous effect on business owners, small and medium enterprises (SMEs) in particular, and how they function. Some businesses were under so much financial strain that they were unable to stay open at all since their operating costs had skyrocketed, and they were no longer sustainable. According to Hizam-Hanafiah et al. (2023), the development of crucial success criteria for franchising is a continuous, iterative process, that requires periodic adjustments based on experience.

Although more electric vehicles (EVs) are being sold worldwide, The Mercury (2019) notes the energy crisis while also highlighting the profound structural issues in the petroleum industry. It appears that South Africa has not taken into account the rapid adoption of mobile technology and related services throughout the continent, as it is assumed that petrol and diesel cars will continue to be sold in South Africa and throughout Africa for a very long time. A just transition to a

low-carbon economy and society, as well as the advancement of the National Development Plan's Vision 2030, are outlined in the National Climate Change Response Policy (NCCRP) of 2011 (DEA 2011), as highlighted by Kornelius et al. (2022). The purpose of the emission reduction targets of this strategy is to bring emissions below a baseline of 34% by 2020 and 42% by 2025. Achieving this is challenging, particularly considering the wicked problems the nation faces, which take precedence by default. The competitive advantage of the franchise will ultimately be impacted by how quickly you respond to these market signals and adjust. Chien (2024) notes that while franchisors prioritise uniformity and standardisation inside their franchises, this may contradict with the necessity of market responsiveness, which is becoming increasingly crucial in the volatile local market business environment. Within the standardised framework of the franchise system and agreement, franchisees' entrepreneurial approach could be strengthened and encouraged to quickly adapt to changes in their local market (Chien, 2024).

2.3.3 Franchise agreement key challenges

Franchise agreements, which are essential for articulating the relationship between the franchisor and the franchisee, frequently exhibit imbalances in power, prompting for improvements to ensure that the power and responsibilities are distributed fairly (Malatsi, 2018). According to Dube et al. (2020), a well-rounded franchise agreement model likewise needs to take into account the expectations of the franchisor and the franchisee, as well as expectations for fairness, support, and trust. Despite the intended objective of protecting franchisees, regulatory frameworks are susceptible to unintended consequences, such as making administrative tasks more difficult (Leketi, 2022). To ensure mutual success and growth, sustainable franchising in the fuel retail industry necessitates careful navigation of legal, financial, and relational dynamics.

2.3.4 Proposition 1

Power imbalances, strict compliance requirements, increased competition, illicit fuel sales, financial hardships from load shedding and fluctuations in crude oil

prices, and the need to strike a balance between standardisation and market responsiveness are among the majority of organisational and regulatory factors that pose serious challenges to franchise agreements in the fuel retail industry in South Africa.

2.4 Theoretical Framework

This theoretical framework emphasises the roles of agency, resource-based, transaction cost, signaling, and stakeholder theories in understanding the dynamics and challenges within franchise systems. It integrates multiple perspectives to analyze the complexities of franchisor-franchisee relationships. The integration of these theories emphasises how crucial it is to have efficient resource management, stakeholder engagement, and governance in order to navigate the challenges plaguing the fuel retail industry in South Africa.

2.4.1 Agency Theory

The use of agency theory in franchise business partnerships, which comprise franchisors and franchisees, is highlighted by Bui et al. (2022). According to this theory, there may be differences in the priorities of franchise business partners, which could result in higher agency costs and a greater likelihood of opportunism. Franchisees frequently operate as independent entrepreneurs, sometimes taking on ventures that are advantageous to their individual units but not to the franchise system as a whole. According to Jang & Park (2019), agency theory suggests that franchisees, or agents, have selfish interests that may not coincide with those of the principals, or franchisors. Franchisors are somehow forced to decide between keeping an eye on salaried employees and preventing franchisees free-riding as a result of this misalignment in the franchisees' priorities. The theory emphasises challenges with control in franchise systems, particularly with regard to opportunistic actions associated with both vertical and horizontal agency problems. Agency theory, according to Hizam-Hanafiah et al. (2023), suggests that the principal (franchisor) sets the goals for the agent (franchisee), using a variety of governance frameworks to control behaviour in the partnership. Hierarchical authority and market pricing systems are used to coordinate this.

Reduced supervision costs are correlated with efficient agency management; however, franchising comes with its own set of expenses. Raha & Hajdini (2022) claim that agency theory also posits that principals and agents hold different interests, which leads to agency costs related to conflicts and monitoring. Principals are risk-neutral, while agents are risk-averse and look out for their financial interests. Interests can be aligned through contracts; however, unclear and ambiguous contracts, asymmetric information, and differing objectives may render alignment challenging.

2.4.2 Resource-Based View and Resource Scarcity Theory

According to Bui et al. (2022), the Resource-Based View (RBV) theory highlights the need of diverse resources in obtaining a sustained competitive edge. For businesses with access to unique local, human, material, and organisational capital, it offers a framework. Expectation-Confirmation Theory combined with RBV shows how franchisor support affects franchisee market performance. Resource scarcity theory, which has its roots in RBV, according to Jang & Park (2019), asserts that businesses franchise in order to acquire the scarce resources (financial, managerial, and informational) required for rapid market expansion. According to this theory, franchisors' self-serving actions, especially in mature stages, could pose a threat to franchise systems. Businesses franchise to obtain economies of scale, according to Hizam-Hanafiah et al. (2023), even if they frequently lack the managerial expertise and funding required for expansion. Franchising, especially for newer and smaller businesses, offers leveraged growth and entrepreneurial independence. According to the theory, factors unique to a business and its geographical location influence the uptake of franchising.

2.4.3 Transaction Cost Theory

Transaction cost analysis, as noted by Badrinarayanan et al. (2016), focuses on how certain investments and opportunistic behaviours affect relational exchange performance and governance structures. Both franchisors and franchisees make investments to take advantage of new prospects and preserve the stability of

exchange relationships. According to Jang & Park (2019), formalization and cooperation lower transaction costs, whereas opportunistic actions raise them. Every time a product or service is transmitted across a technology interface, transaction costs occur. These costs are influenced by a number of factors, including constrained rationality, opportunism, risks, and the business core assets. Increased transaction costs brought on by opportunistic actions can be detrimental to the relationship between a franchisor and a franchisee.

2.4.4 Signaling Theory

According to Jang & Park (2019), signaling theory addresses the reduction of information asymmetry between franchisors and franchisees. Through company-owned retail outlets, royalty rates, and financing options, franchisors signal to prospective franchisees the high standard of their brands and goods. By giving potential franchisees the ability to assess costs, value, quality, and benefits, effective signaling aids in attracting these franchisees. Information asymmetry is a major problem in franchisor-franchisee relationships, according to Lanchimba et al. (2021). In order to address issues with moral hazard and adverse selection, signaling theory offers an analytical framework for comprehending the organisational and contractual decisions made by new franchisors in an effort to attract prospective franchisees.

2.4.5 Stakeholder Theory

Stakeholder theory, according to Raha & Hajdini (2022), acknowledges the interests of all people or groups that impact or are affected by organisational objectives. This theory highlights the fact that stakeholders give the organisation essential resources and anticipate having their interests met. Stakeholders are classified according to how they affect the organisation's ability to survive: key stakeholders (customers, local community, employees, and suppliers) have a direct influence on the organisation, whereas secondary stakeholders (government, media, activists, and interest groups) do not. In order to manage different stakeholders' interests in a collaborative value creation, stakeholder theory examines the nature of relationships.

2.5 Conceptual Framework

The factors impacting franchise agreements in the fuel retail industry of South Africa are depicted in this conceptual framework, Figure 1. The RAS model, the Petroleum Products Amendment Act, and the sale of illicit fuels are examples of regulatory factors that impact the franchise agreement model by imposing compliance requirements and influencing the agreements' fairness and trust. The financial viability and innovation of franchisees are impacted by organisational factors such as the effects of load shedding and the demand for market responsiveness. The franchise agreement concept is made more challenging by market and financial factors including increased competition and volatile crude oil prices.

Through the incorporation of fairness, compliance requirements, and power imbalances, the franchise agreement model in turn affects the relationship between franchisors and franchisees. Mutual trust, open communication, and effective governance are essential for sustainable franchise relationships. The franchise agreement framework emphasises that in order to successfully traverse the challenges facing the fuel retail industry, adaptable strategies, collaborative innovation, and effective resource management are essential.

To operationalize this framework, the research will analyze how specific organisational and regulatory factors influence the key outcomes of franchise agreements in the South African fuel retail industry. By doing so, it will provide a clear and structured model that links the factors.

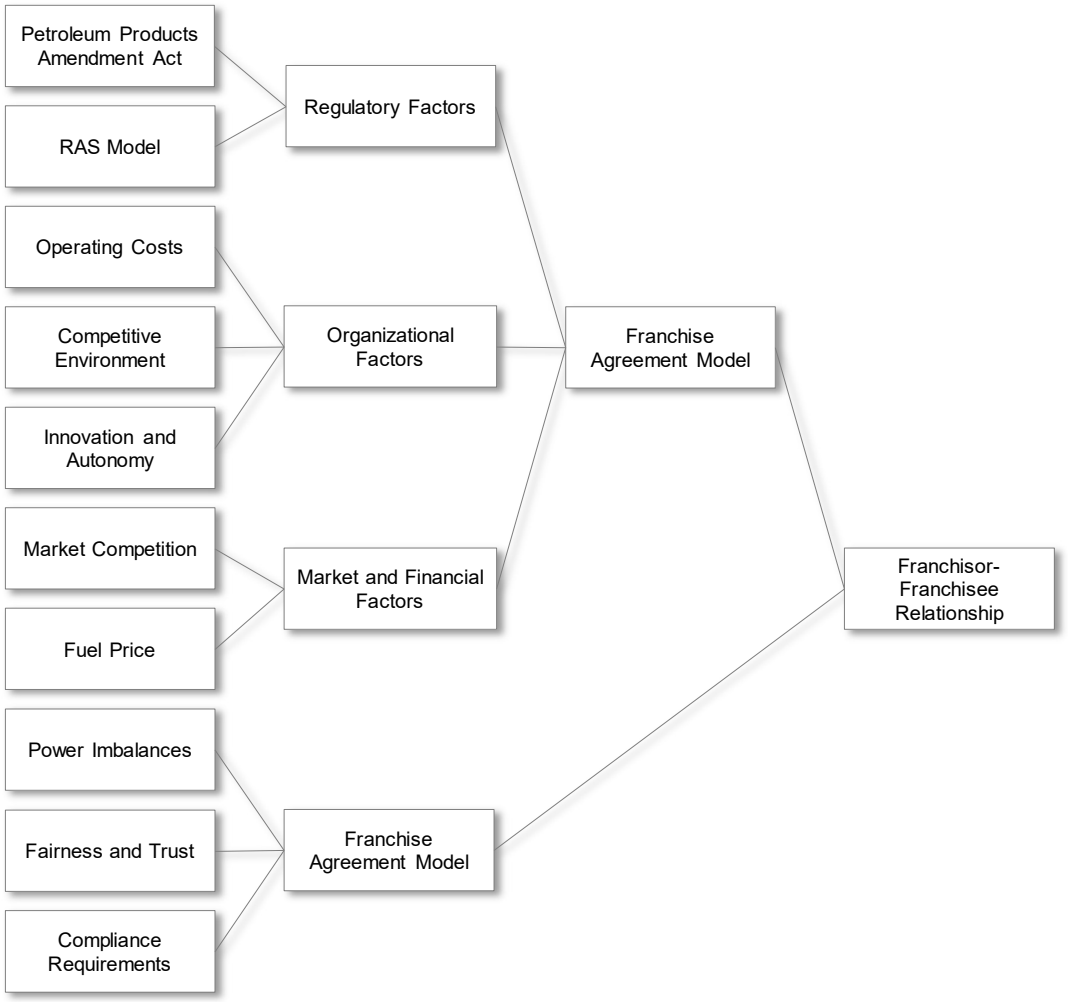

Figure 1: Conceptual Framework

Source: Author's own

2.6 Conclusion of Literature Review

A balanced franchise agreement model is necessary to effectively navigate the challenging environment of South Africa's fuel retail franchise industry. In addition to fostering collaboration and mutual trust, this model needs to encourage fairness, promote innovation, as well as take the regulatory environment into perspective. Enhancing market responsiveness, reducing regulatory burdens, and addressing power imbalances would improve the sustainability and success of franchise partnerships.

Most organisational and regulatory factors that pose serious challenges to franchise agreements in the fuel retail industry in South Africa are power imbalances, stringent compliance requirements, increased competition, illicit fuel sales, financial hardships from load shedding and fluctuations in crude oil prices, and the need to strike a balance between standardisation and market responsiveness.

CHAPTER 3. RESEARCH METHODOLOGY

This research aims to examine and understand the dynamics and challenges in the franchise agreements of the South African fuel retail industry, employing a qualitative approach to gather detailed insights through interviews with key stakeholders. The qualitative approach supports flexibility, allowing the research to adapt to new information and emerging themes throughout the study. The study operates on the assumption that participants' perspectives are significant yet subjective, recognizing that each stakeholder's viewpoint is shaped by their unique experiences and roles within the industry.

3.1 Research approach

This research aims to examine and understand the various dynamics and challenges present in the franchise agreements of the fuel retail industry in South Africa. Given that it provides for a thorough analysis of the subject matter, qualitative research is particularly beneficial for this particular type of research (Bougie & Sekaran, 2020). The research gathers detailed, first-hand insights by direct engagement with key stakeholders through interviews, which may not be feasible through quantitative methods. Understanding the real-world experiences and practical implications of individuals who operate in the industry is fundamental.

The research assumes that the participants' experiences and perceptions are of significance but are subjective. It acknowledges that every stakeholder could have an independent perspective influenced by their own experiences and roles within the industry. The approach is based on the premise that reality and knowledge are products of social construction (Abutabenjeh & Jaradat, 2018). This indicates that the interactions and shared understanding of the various stakeholders establish the fundamentals of franchise agreements and their ideal models. The research assumes that the findings may vary depending on the context (Kuper et al., 2008). Without taking into consideration regional variances, the insights drawn from the South African fuel retail industry may not be directly

applicable to other contexts. The dynamic nature of the factors influencing franchise agreements and their potential to change over time are acknowledged by the qualitative approach. This supports the need for a flexible research method that can take into account new information and themes that emerge throughout the research.

3.2 Research design

The overall research design for this study is illustrated in Figure 2 below.

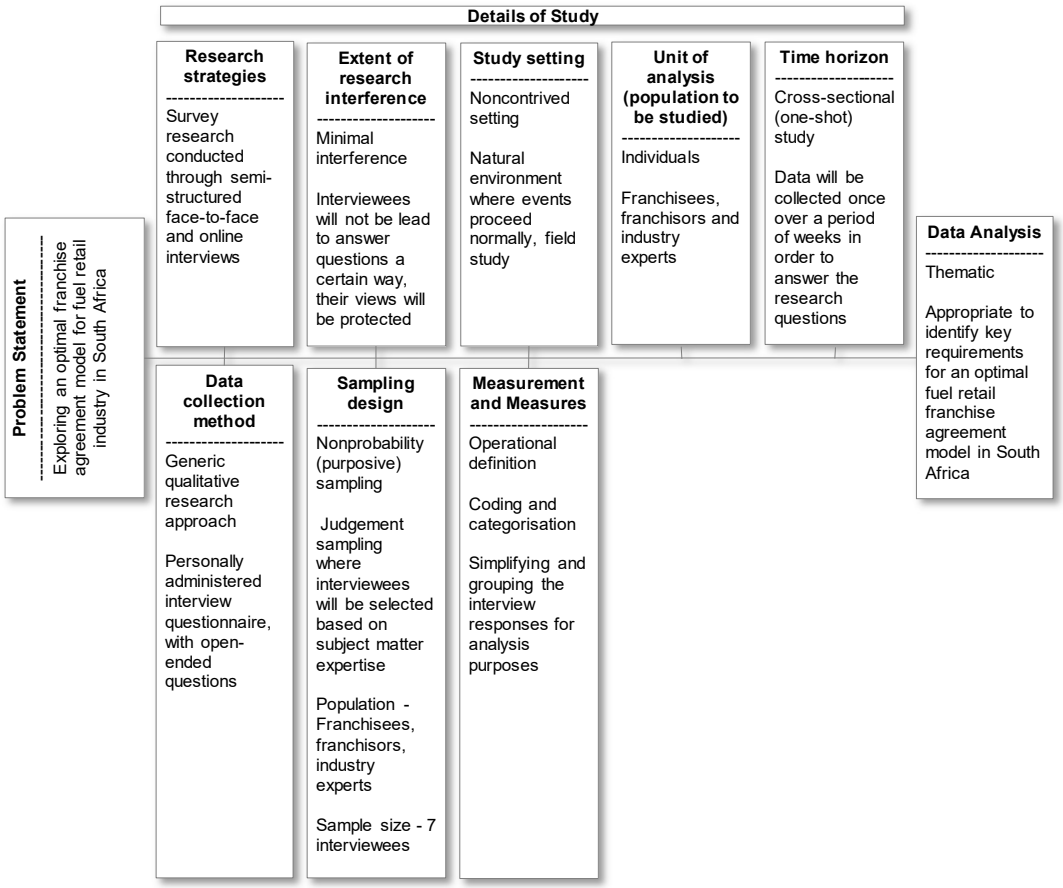

Figure 2: The Research Design

Source: Author's own

The study employs a case study design within a qualitative research framework, centred on semi-structured interviews conducted both face-to-face and online. This design was selected for its ability to elicit rich, detailed insights into the

challenges and dynamics of franchise agreements in the fuel retail industry. The data collection method includes a personally administered interview questionnaire with open-ended questions. By using open-ended questions, the research encourages participants to share nuanced perspectives, allowing for a deeper understanding of the industry's complexities (Reeves et al., 2008). The sampling design is nonprobability, specifically judgment sampling, targeting individuals based on their expertise in the field. The use of judgment sampling ensures that only those with relevant expertise contribute, enhancing the reliability of the findings. A purposive sample of seven interviewees allows for manageable data analysis while ensuring the intensity of information from each participant. A cross-sectional study provides an overview of the current state of franchise agreements in the fuel retail industry in South Africa, which is critical for comprehending current industry challenges and opportunities. The data analysis method will be thematic, Abutabenjeh & Jaradat (2018)) support that this approach aids in systematically categorizing and interpreting the data to address the research questions effectively.

Bougie & Sekaran (2020)) further support that the advantages of this research design include semi-structured interviews and open-ended questions which allows for the collection of detailed and nuanced data, providing deep insights into the challenges and potential models for franchise agreements. Tracy (2010) adds that the semi-structured format allows interviewers to explore interesting responses further, adapting questions based on the flow of the conversation; judgment sampling ensures that the data comes from knowledgeable sources, increasing the validity and reliability of the findings; and conducting interviews in a natural setting enhances the authenticity of the responses, as participants are likely to provide more genuine and accurate information. While Denny & Weckesser (2022) support this notion, it should also be noted that the disadvantages of the research design include that qualitative data can be subjective and harder to quantify, potentially leading to biases in interpretation and analysis; findings from a small, purposive sample may not be generalizable to the entire population of franchisees and franchisors in the fuel retail industry; conducting and analyzing semi-structured interviews is time-consuming, requiring significant effort to ensure thorough and accurate data collection and

analysis; and reliance on expert opinions may introduce bias, as these individuals might have specific interests or perspectives that influence their responses.

3.3 Data collection methods

Semi-structured interviews served as the primary data collection method, chosen for their flexibility and depth. A personally administered interview questionnaire with key topics and questions that align with the research objectives, containing open-ended questions, were used to facilitate the interviews, with the flexibility to explore themes that emerge during the conversation.

Kolstoe et al. (2023) supports that by asking open-ended questions about organisational and regulatory factors, this method prompts a comprehensive discussion of the main challenges faced by franchisors and franchisees in the fuel retail industry in South Africa, interviewees can therefore provide insights into what constitutes an optimal franchise agreement model, and best practices and innovative solutions for the industry.

3.4 Population and sample

The research targets three key groups within the South African fuel retail industry: franchisees, franchisors, and subject matter experts. These groups were selected to provide a comprehensive view of the industry, addressing both practical and strategic dimensions of franchise agreements. Purposive sampling was employed to ensure that participants were selected based on their knowledge and experience, a method supported by Denny & Weckesser (2022) for its effectiveness in qualitative research.

Although an initial sample size of fifteen participants was chosen to allow for in-depth interviews, a common practice in qualitative research where the focus is on quality and depth of data over quantity (Bougie & Sekaran, 2020), saturation was however reached at seven interviews. At this point it was noted that no additional data or insights were being obtained from the selected population.

3.4.1 Population

The research population is inclusive of franchisees, franchisors, and subject matter experts in the fuel retail industry in South Africa. The inclusion of these three groups, allows the research to capture a holistic view of the franchise ecosystem and draw conclusions (Abutabenjeh & Jaradat, 2018). The franchisees' experiences and challenges in adhering to franchise agreements provide practical insights into what works and what doesn't in current models. The franchisors' perspective assists in evaluating the franchise agreements from the standpoint of standardisation, brand control, and overall business strategy. The subject matter experts offer a broader view of regulatory, economic, and organisational factors impacting franchise agreements.

3.4.2 Sample and sampling method

The proposed sampling method is nonprobability purposive sampling, specifically judgment sampling. Purposive sampling is suitable for this study because it allows for the selection of participants who possess knowledge and experience particularly relevant to the research objectives. In franchise agreement research, where insights from the fuel retail industry participants are critical, the chosen sampling method ensures that the selected interviewees can provide deep, nuanced perspectives on the challenges and requirements of franchise agreement models in the fuel retail industry in South Africa.

The proposed sample size is fifteen interviewees. This is supported by the fact that qualitative studies often prioritise depth over breadth, as the research method seeks rich insights from a smaller number of well-informed participants (Denny & Weckesser, 2022). Although small, this sample size is justified for qualitative research focusing on in-depth interviews. It is however to be noted that only seven interviewees were interviewed as no new inslights were being obtained, indicating a level of saturation (Bougie & Sekaran, 2020).

3.5 The research instrument

A semi-structured interview questionnaire was followed to gather insights from key stakeholders including franchisees, franchisors, and industry experts. This instrument aims to uncover critical perspectives on organisational, regulatory, and economic factors affecting franchise agreements, and to propose optimal models for fostering mutual success and sustainability. The actual cover letter and questionnaires are included in Appendix A and Appendix B.

3.6 Procedure for data collection

Face-to-face interviews were conducted with selected participants. This method allows for deeper exploration of responses and non-verbal cues (Bougie & Sekaran, 2020). The questionnaire design allowed respondents to provide detailed insights into their experiences, challenges, and perspectives regarding franchise agreements in the fuel retail industry. Questions were framed around key themes identified in the literature review, such as regulatory challenges, organisational factors, economic impacts, and market responsiveness. The semi-structured approach allows for probing into specific areas of interest without restricting participants' responses (Denny & Weckesser, 2022).

3.7 Data analysis strategies and interpretation

Given the qualitative nature of the data collected through semi-structured interviews, thematic analysis was the primary method for data analysis. Thematic analysis was used to analyze the interview data, as it is particularly suited to qualitative research that seeks to identify patterns and themes within complex datasets (Reeves et al., 2008). This method involves coding the data and organising it into themes that align with the research objectives. The analysis was guided by existing literature, ensuring that findings were not only grounded in the participants' experiences but also contextualized within the broader body of knowledge on franchise agreements.

3.8 Possible limitations and challenges of the study

The study aims to provide a transparent account of potential weaknesses, guiding future research to address these gaps and enhance the robustness and applicability of findings in the exploration of optimal franchise agreement models in the fuel retail industry.

a. Population Limitations: Exclusion of other stakeholders, such as customers or regulatory officials, might result in a less comprehensive view.
b. Generalizability: The findings, being specific to the South African context, may not be applicable to fuel retail franchises in other regions due to differing regulatory and cultural environments (Abutabenjeh & Jaradat, 2018).
c. Geographical Limitations: The data collection did not encompass respondents from all regions across South Africa. This limitation may affect the generalizability of the findings to the broader national context. Future research could benefit from a more comprehensive geographic coverage to provide a more complete understanding of the franchise agreement model's effectiveness across diverse regions in South Africa.

3.9 Quality Assurance

To ensure quality assurance, the research employs several strategies. The research employs purposive, judgment sampling targeting franchisees, franchisors, and subject matter experts to ensure the findings are relevant and potentially transferable to similar contexts, despite the limitation of a small sample size. Detailed descriptions of the research context, participant engagement, and validation of findings enhance the study's credibility and transferability. Dependability is supported by using semi-structured interviews and maintaining a consistent approach across all interviews, though the small sample size could affect generalizability.

3.9.1 Transferability

The sampling design involves purposive, judgment sampling, targeting franchisees, franchisors, and subject matter experts. By clearly describing the participants and their relevance to the study, a basis is provided for assessing whether findings can be transferred to similar groups in different contexts (Denny & Weckesser, 2022). However, the small sample size could limit the transferability of findings to broader populations or different geographic locations without similar market dynamics (Tracy, 2010).

Thematic analysis allows for the identification of key patterns and themes relevant to the optimal franchise agreement model (Reeves et al., 2008). This method is robust and can potentially be applied in other contexts with similar industry dynamics. The operational definitions and coding frameworks used to categorize responses are crucial for ensuring that findings are interpreted consistently (Bougie & Sekaran, 2020). However, these frameworks need to be adaptable for transferability to contexts with different industry structures or regulatory environments.

To maximize transferability, provide detailed descriptions of the research context, including the regulatory environment, economic conditions, and organisational structures within the South African fuel retail industry. This allows other researchers or practitioners to determine the extent to which the findings can be applied to their contexts. Engage with participants to validate the findings and interpretations. This process ensures that the results accurately reflect the participants' views and enhances the credibility and transferability of the study (Abutabenjeh & Jaradat, 2018).

The implications of transferability in the study are significant for both academic and practical applications. Franchise managers, policymakers, and stakeholders in other regions or industries can draw on the insights from the study to inform their practices. Understanding the challenges and strategies identified in the South African context can help in designing more effective franchise agreements elsewhere, provided the contextual similarities are considered.

3.9.2 Credibility

Thematic analysis allows for a detailed understanding of the challenges and potential solutions. The subjectivity involved in coding and categorizing qualitative data might lead to inconsistencies (Bougie & Sekaran, 2020). Clear guidelines and multiple coders can enhance reliability and reduce individual bias in the analysis process. Using operational definitions for coding and categorization ensures a systematic approach to data analysis. This enhances the clarity and consistency in how data is interpreted and reported. The potential for misinterpretation of responses or oversimplification of complex answers during coding is a concern. Regular checks and validation with participants can help ensure that the coding accurately reflects their intended meanings (Tracy, 2010).

To address these potential weaknesses and maximize the credibility of the study, while keeping within the constraints of qualitative research, implementing intercoder reliability checks during the thematic analysis can ensure that the coding process is consistent and reliable across different researchers (Bougie & Sekaran, 2020). Sharing findings with participants to validate the interpretations and conclusions drawn can help ensure that the results accurately reflect their experiences and perspectives.

3.9.3 Dependability

The use of semi-structured face-to-face and online interviews with open-ended questions is appropriate for obtaining in-depth insights from the participants (Tobi & Kampen, 2018). This method supports dependability as it allows for flexibility while maintaining a structured approach to data collection. The consistent application of this method across all interviews helps in maintaining reliability.

Nonprobability purposive sampling, particularly judgment sampling, ensures that participants are selected based on their expertise and relevance to the research problem (Bougie & Sekaran, 2020). This targeted approach enhances the relevance and depth of the data but may introduce bias. To mitigate this, the study could ensure a diverse range of experts to capture varied perspectives within the

fuel retail industry. The sample size of seven interviewees is relatively small, which may affect the generalizability of the findings. However, detailed and comprehensive interviews can provide robust insights, and dependability can be ensured by thorough documentation and consistent application of the interview protocol (Reeves et al., 2008).

To maximize dependability, maintain a detailed audit trail documenting each step of the research process, including decision points, changes made, and the rationale behind them (Kuper et al., 2008). This provides transparency and allow for replication. Ensure that all interviews are conducted in a similar manner, using the same set of questions and procedures to minimize variations and enhance consistency.

3.10 Ethical considerations

The study adhered to strict ethical guidelines to protect participants' rights and ensure the integrity of the research process. Potential participants were provided with a detailed information sheet explaining the study's purpose, methods, expected duration, and any potential risks and benefits (Appendix A). Participation was entirely voluntary and participants were informed that they can withdraw at any time without any negative consequences. A written informed consent from all participants was obtained before beginning the interviews (see Appendix D).

Unique codes were assigned to participants instead of using names or other identifying information to maintain anonymity. All data would be stored securely using password-protected digital files. Only the primary researcher and authorized personnel will have access to the data. When reporting the results, no identifying information about the participants will be included. Aggregated data and anonymized quotes will be used to illustrate findings.

The detailed research proposal, including the ethical plan, was submitted to the Wits Business School Ethics Committee for review and approval before beginning the data collection, refer to Appendix C for ethics clearance. The

guidelines and recommendations provided by the ethics committee were followed and compliance ensured.

CHAPTER 4. RESEARCH FINDINGS AND DISCUSSION

This chapter presents the findings from the interviews conducted with industry experts, franchisors, and franchisees within the fuel retail industry, specifically focusing on the experiences and perspectives of these stakeholders, Table 1.

Table 1: Experience and Role Overview

Source: Author's own

Operational definitions		Coding and categorisation						
Experience and role overview		*Industry Expert*	*Franchisor 1*	*Franchisor 2*	*Franchisee 1*	*Franchisee 2*	*Franchisee 3*	*Franchisee 4*
Designation	Job title and primary responsibilities	"National Sales Manager for the retail network..."	"...Franchise Development Coordinator..."	"manage Franchise/Operation Agreements and renewals"	Franchisee and on-site manager	Director of multiple fuel retail franchises	Group Operations Director overseeing multiple filling stations	CEO
Experience	Number of years and types of roles held	"I was in the oil industry for 29 years..."	"...since 2016..."	"22 years of experience", "variety of roles"	Managing the site since 2004	14 years in petroleum, 25 years in business	35 years in retail; 26 years in the fuel industry	35 years in engineering, 8 years in the fuel industry

Table 1 provides an overview of the participants involved in the study, detailing their roles, years of experience, and key responsibilities. This information contextualizes their perspectives and the insights they provide regarding franchise agreements in the fuel retail industry. The interviews explored various dimensions of the franchise agreement model, regulatory and organisational factors, the current franchise agreement models, and the potential for an optimal franchise agreement model. The responses provide valuable insights into the challenges and opportunities within the fuel retail franchise landscape.

4.1 Introduction

The insights gathered from these interviews provide a comprehensive understanding of various aspects ranging from regulatory frameworks to operational challenges and future trends. These insights are categorized into several key themes based on the interview questionnaire responses.

4.2 Regulatory and organisational factors

The regulatory landscape governing fuel retail franchise agreements in South Africa is primarily shaped by the Regulatory Accounting System (RAS) and the Petroleum Products Act (PPA). The RAS, administered by the Department of Mineral Resources and Energy (DMRE), dictates pricing models and profit margins, ensuring transparency in the franchisor-franchisee financial relationship. Compliance with the PPA is crucial for managing operational licenses and site requirements, ensuring legal adherence within the industry. Table 2 provides an overview of these factors as per interviews conducted.

Table 2: Regulatory and Organisational Factors

Source: Author's own

Operational definitions		Coding and categorisation						
Regulatory and organisational factors		***Industry Expert***	***Franchisor 1***	***Franchisor 2***	***Franchisee 1***	***Franchisee 2***	***Franchisee 3***	***Franchisee 4***
Regulatory framework	Laws and regulations governing fuel retail	"The price is set by government itself except diesel..." "...margins change somewhat because in the past the margins were set..." "...to protect jobs in terms of it being a served network..."	Governed by RAS (Regulatory Accounting System), PPA (Petroleum Products Act), and LFC (Liquid Fuels Charter)	"DMRE", "RAS margins"	Compliance with wage agreements (Midco) Annual renewal of retail license (Department of Energy and Minerals) Adherence to safety and training standards audited by franchisor	Critical adherence due to business volatility, standards set by franchisor, fire department, food and beverage department	DMRE, local authorities, labor laws (MIBCO), and internal compliance Membership in Fuel Retailers Association, outsourcing safety and standards checks, and monitoring changes in laws	Utilizing labor laws, operating procedures, and franchise guidelines to ensure compliance
Staying informed	Methods to stay updated with changes in regulations and industry dynamics		Updates to franchise agreements as regulations change, RAS margin adjustments twice a year, and transformation goals.	"workshops", "monthly liaison"				
Structuring agreements	Customisation of franchise agreements to align with regulations	"...major factor within the retail franchise agreements for fuel is people dealing with a volatile product..."	Franchise agreements with addendums to accommodate legal changes	"group legal", "templates governed by legal department"	Perceived as strict and well-defined Emphasis on fair enforcement across all franchisees	Positive environmental alignment with franchisor's emission standards; need for regulatory improvements.	Outdated terms and conditions not reflective of current operations Challenge in maintaining compliance post-agreement signing Updating agreements to reflect current industry standards required	Regulatory environment fits well with the franchise agreement; minimal need for changes, occasional minor adjustments

Table 2 outlines the key regulatory and organisational factors affecting franchise agreements in the South African fuel retail industry. Understanding these factors is essential for both franchisors and franchisees to ensure compliance and operational efficiency.

4.2.1 Regulatory framework

Industry experts stress the balance regulatory bodies must maintain between consumer protection, job preservation, and economic efficiency. While regulation ensures standards and safety, excessive regulation risks stifling entrepreneurial initiative essential for franchise success (Smith & Johnson, 2022).

- Franchisor 2: "The RAS has significantly altered our profit distribution models, requiring us to adjust our franchise agreements to maintain fairness and transparency."
- Franchisee 3: "Our franchise agreement hasn't been updated in 20 years, making it difficult to navigate current regulatory demands."

Regulatory changes have significant influence on fuel retail franchise agreements, particularly the introduction of the RAS. The RAS has altered profit distribution based on ownership of assets, affecting margins for both franchisors and franchisees (Doe, 2023). Compliance with the PPA is crucial for managing operational licenses and site requirements, ensuring that all parties adhere to legal standards (Brown & Green, 2021). Industry experts further highlight the DMRE's role in setting fuel prices and enforcing safety standards through franchise agreements to ensure compliance. This is further supported by Franchisor 2, indicating that the management of fuel retail franchise agreements is deeply intertwined with regulatory frameworks established by the DMRE. These frameworks include licensing requirements and regulations on pricing (i.e., RAS margins), which dictate the contractual obligations the franchisor must adhere to in its agreements. Franchisor 1 highlights that the annual retail license renewals through the DMRE ensure operational legality, the franchisors then further audit the sites to ensure compliance with safety protocols and quality standards, underscoring a rigorous adherence to regulatory requirements. Franchisee 3 further highlights the importance of participation in industry

association such as the Fuel Retailers Association (FRA) in order to stay informed about regulatory changes, while Franchisor 2 emphasises that franchisors remain proactive in staying informed about regulatory changes through regular interactions with the DMRE and industry workshops as such information is crucial in shaping the approach to structuring and customizing franchise agreements to align with legal requirements and market conditions. Franchisee 4 on the other hand underlines the importance of ensuring that all operational procedures align with regulatory requirements, taking guidance from the franchise agreement to ensure compliance. Franchisors must proactively engage with the DMRE to stay informed about regulatory changes, as highlighted by Franchisor 2. This proactive approach aligns with findings by Kuper et al. (2008), who argue that staying abreast of regulatory developments is vital for maintaining competitive advantage and operational compliance.

4.2.2 Perceptions and areas of improvement

Due to increased competition in the fuel retail industry, it has been observed that some competitors often undercut prices, and engage in fuel mixing, which are all unethical practices that harm both consumers and the environment and ultimately impact the business negatively. Franchisees express concerns about universal compliance and the need for enhanced monitoring mechanisms to maintain industry integrity.

- Franchisee 1: "While regulatory oversight is comprehensive, not all stakeholders comply uniformly, which undermines the entire system."
- Franchisee 4: "Ensuring that our operations align with regulatory requirements is challenging without consistent support from the franchisor."

Franchisee 1 acknowledges the comprehensive nature of regulatory oversight but highlights concern about universal compliance among stakeholders. This emphasises the need for equitable adherence to stipulated rates and margins, further suggesting enhanced monitoring mechanisms to prevent discrepancies that could undermine industry integrity. Franchisee 3 expressed concerns that current franchise agreements are outdated, having remained largely unchanged

for 20 years. This stagnation has led to agreements that do not reflect contemporary market conditions or operational challenges, resulting in challenges in adhering to the franchise agreement due to inadequate updates and insufficient consultation processes. Franchisee 4 however supported that the franchise agreement was comprehensive and adaptable to regulatory changes, highlighting that the systems and procedures in place ensure compliance, including guidance from the franchisor and monthly inspections conducted to maintain adherence to both the franchise agreement and regulatory standards. The perception of outdated franchise agreements that do not reflect contemporary market conditions poses significant challenges (Adams & Lee, 2022). Franchisees like Franchisee 3 highlight the stagnation of agreements, which hampers adaptability and effective compliance. In contrast, Franchisee 4 acknowledges the comprehensiveness of current agreements but calls for more adaptable systems to handle regulatory changes efficiently.

4.3 Current franchise agreement models

Fuel retail franchise agreements have evolved from simple service stations to complex retail outlets incorporating convenience stores and franchise partnerships such as with fast-food chains. This evolution is driven by changing consumer demands for convenience and extended service hours (Miller, 2023).

- Industry Expert: "The shift towards integrated retail formats is a response to consumer demand for one-stop shopping experiences."
- Franchisor 1: "Our support framework includes ongoing training and marketing resources to help franchisees adapt to these changes."

As per the Industry Expert, this evolution was driven by changing consumer demands for convenience and extended service hours. Recent developments include expanding product offerings and enhancing customer experience through diverse retail formats within service stations. The changes in consumer preference have created challenges for the fuel retail industry in South Africa, where competitors such Checkers and PicknPay are offering delivery services that compete with traditional convenience offerings at service stations. The

Industry Expert advices that this shift necessitates adaptations in service station retail strategies to maintain competitiveness and profitability amid these changes.

The approach followed to select franchisees include aspects such as operational capability, financial stability, as well as the franchisor's commitment to transformation initiatives aimed at diversifying ownership demographics within the industry. Franchisor 2 adds that aspects such as business acumen, customer service skills, leadership capabilities, and financial understanding are also key when selecting franchisees, to ensure that they are equipped to effectively manage operational challenges and align with the franchisor's brand values.

Once franchisees are appointed, the franchisor is to further provide robust support mechanisms such as startup assistance, ongoing training, marketing resources, and access to operational expertise. Franchisor 1 highlights that this support framework aims to enhance franchisee success and operational efficiency across the franchisor's network of service stations. An overview of factors highlighted to affect current franchise agreements models is provided in Table 3.

Table 3: Current Franchise Agreement Models

Source: Author's own

Operational definitions		Coding and categorisation						
Current franchise agreement models		***Industry Expert***	***Franchisor 1***	***Franchisor 2***	***Franchisee 1***	***Franchisee 2***	***Franchisee 3***	***Franchisee 4***
Evaluation criteria	Factors considered when selecting franchisees | Decision to franchise		Transformation plan adherence, financial capability, retail experience, risk verifications including credit, criminal, and fraud checks	"business understanding", "leadership capability", "financial understanding"	Support from franchisor Benefits in advertising and product quality Maintenance responsibilities handled by franchisor	Preference for purchase and sale agreements over franchise agreements; limited freedom	Prevalence of franchise models Trust in established oil companies with refinery and import backing Benefits from associations with other brands and rewards programs	Market positioning, access to know-how, technology, marketing support, and security provided by a long-term agreement
Support and resources	Assistance provided to franchisees		Project managers for new sites, retail account managers for ongoing support, training, and marketing collateral	"high level training", "curriculum", "online training"	FBA assistance for issues Maintenance of site infrastructure	Need for active franchisor role, site maintenance, and rebranding	Brand loyalty, marketing, engineering, rewards programs, and integrated systems Critique - Need for franchisor to keep up with market changes	Excellent operational support, though lacks formal training and sometimes has slow maintenance responses
Competitive advantages and disadvantages	Perceived benefits and drawbacks of franchise model	"…the physical retail sector of Checkers, Woolworths and Pick n Pay must have impacted the oil industry…"	Financial difficulties, high fuel prices, impact of load shedding	"absent retailers", "understanding finances"	Reward systems funded by franchisor Monthly promotions and negotiated buying prices Strong brand reputation Negotiation with Transnet for site land Support during COVID-19 Advocacy with the Department of Energy No challenges noted - Fair consignment stock practices	Issues with price competitiveness; non-compliance among competitors Benefits - RAS model, maintenance fairness Need for pre-implementation consultation and open communication Challenges - Inflexible delivery terms, lack of protection for franchisees	Advantages - National footprint, powerful company backing, customer trust in brand, Legal protection for both parties Disadvantages - Renewal uncertainties and fear of voicing concerns	Advantages include brand recognition, marketing support, and network knowledge. 15-year agreement term is beneficial. The main disadvantage is potentially higher fuel costs. Maintenance cost changes pose some challenges.
Communication and relationship with franchisor	Methods for maintaining communication with franchisees | How the agreement affects the relationship and valued support aspects		Monthly site visits by retail account managers, CRM for tracking engagements, quarterly National Retailer Council meetings	"engage retailers", "themed engagements"	Valuable support: Maintenance of pumps, tanks, and HVAC systems	Franchisor default issues, lack of recourse for delivery failures	Initial agreement vs. post-agreement changes Most valued supports include marketing and engineering expertise	Positive relationship due to regular support and communication, improvements over time
Agreement model and clauses	Elements of franchise agreements, balancing interests, and ensuring clarity in clauses		Combination of branded sites and dealer-owned sites with a focus on convenience services	"franchise A, franchise B", "royalty percentage" Effective clauses - "avoid ambiguity", "clearly articulated clauses" Problematic clauses - "death of a franchisee", "liability insurance"	Ensuring consistent standards across all franchisees		Challenges - Fear of making changes near agreement end Required changes - Faster implementation of changes to keep up with market	No major issues, though the consignment stock arrangement posed some financial concerns
Innovation and adaptation	Adapting to industry changes, incorporating new technologies, and planning for future market dynamics			"solar PV", "EV charging stations", "modes of payment"				
Contribution to a mutually beneficial arrangement	Factors that could improve the franchise relationship						Open door policy, more engagement with retailers, addressing on-ground challenges	Increase communication with franchisees, allow flexibility in product offerings, and consider regional economic differences

4.3.1 Beneficial aspects and challenges

The fuel retail industry's competitive landscape is challenging, franchisor should continuously enhance their competitiveness. Franchisees benefit from strong national brand support but face threats from deregulated diesel pricing and unethical competitor practices.

- Franchisee 2: "Competitors offering diesel discounts without regulation puts us at a significant disadvantage."
- Franchisor 1: "Providing extended payment terms during economic downturns helps our franchisees stay afloat."

Franchisee 2 indicates that competitors' ability to offer discounts on diesel, which is deregulated, poses a significant threat to franchise businesses. Furthermore, issues like unethical practices by other retailers and the lack of stringent regulatory enforcement exacerbate these challenges. Franchisor 1 highlights that the common challenges faced by franchisees include financial viability, which is further exacerbated by economic downturns and fluctuating fuel prices. Franchisors address these challenges through initiatives such as extended payment terms during crises, consignment stock models, and exploring alternative energy solutions like solar power to mitigate rising operational costs.

It is also important for effective communication and collaboration channels between franchisors and franchisees to be developed to facilitate continuous dialogue on performance, operational challenges, and strategic initiatives within the franchise network. Franchisor 1 highlights that this is facilitated through structured platforms, including regular site visits, customer relation management (CRM) systems, and quarterly engagement sessions. Franchisor 2 further adds that to foster franchisee success, the franchisor must provide comprehensive training programs, site visits, online resources, and ongoing engagement through regional and senior management interactions to mitigate common franchisee challenges such as financial management and operational oversight.

Franchisor 2 adds that the key challenges are usually a result of franchisee absenteeism from the management of the fuel retail site, leading to operational vulnerabilities and financial mismanagement. There are however other

challenges with franchises, such as complexities surrounding liability insurance and regulatory compliance. While franchisors emphasise clarity and legal validity in their franchise agreements, Franchisor 2 adds that challenges arise from ambiguous clauses, particularly in scenarios like franchisee succession and liability insurance responsibilities.

Franchisee 1 underscores the pivotal role of the franchisor's support infrastructure, particularly in maintenance and operational troubleshooting, secure site tenure negotiations, operational stability amidst economic fluctuations, and proactive market interventions during crises such as COVID-19 pandemic. Access to franchise business administration (FBA) and centralized maintenance services alleviates individual operational burdens, thereby enhancing overall efficiency and service quality. Challenges, though minimal for the franchisee, include adherence to strict operational standards and potential disparity in franchisee experiences across the network.

Franchisee 2 supports this notion but however highlighted the challenge of lack of investment in giving older sites a fresh look, which ultimately affects customer attraction to the site, as well as the inability to source fuel independently when the franchisor fails to deliver on time. The current focus on compliance audits over business operations was also seen as a hindrance. The RAS model was viewed as a fair and beneficial aspect of the current agreement. However, there is also a call for a more balanced agreement that protects the franchisees' interests.

Franchisee 3 added other benefits such as a strong national footprint, marketing, engineering, and expert teams that enhance operational efficiency and adaptation to market trends and implementing integrated systems; further adding that customers prefer branded entities due to trust and reliability. Challenges arise during the franchise agreement renewal process, where fear of non-renewal can inhibit open communication and feedback. The franchisee stressed the importance of resolving issues without constantly reverting to the agreement, as it can damage relationships. The franchisee also noted a tendency for both parties to become too comfortable, emphasising the need for continuous adaptation to market changes.

Franchisee 4 valued operational support, access to extensive know-how, agreement term, brand recognition, and a robust marketing campaign received from the franchisor as it contributed significantly to business success. The franchisee however highlighted that improvement was required in the formal training offering on the successful operation of a fuel retail site, also highlighting the primary disadvantage as the inability to source cheaper fuel to compete with others in the market, as well as occasional discrepancies in franchise agreement enforcement across the network.

Economic fluctuations and deregulated pricing models, such as those affecting diesel, present ongoing challenges for franchisees (Clark & Nguyen, 2022). Franchisors address these challenges through financial support mechanisms and exploring alternative energy solutions, aligning with strategies suggested by Reeves et al. (2008) for enhancing franchisee resilience. Effective communication and collaboration between franchisors and franchisees are crucial for addressing operational challenges. Structured platforms, such as regular site visits and CRM systems, facilitate continuous dialogue, supporting findings by Denny and Weckesser (2022) on the importance of robust communication channels in franchise management.

4.3.2 Communication and collaboration

Maintaining structured communication channels is essential for fostering strong franchisor-franchisee relationships. Issues such as delayed fuel deliveries strain these relationships and highlight the need for mutual understanding and adaptability. Franchisors need to maintain structured communication channels with franchisees, Franchisor 2 adds the importance of setting specific engagement targets and thematic focuses to address operational and strategic concerns effectively.

- Franchisee 2: "Delayed fuel deliveries result in significant financial losses and strain our relationship with the franchisor."
- Franchisee 4: "More input from franchisees in decision-making processes would improve our operational effectiveness."

The impact on business operations adds strain to the relationship between the franchisee and franchisor. Franchisee 2 highlights issues such as delayed fuel deliveries, this lack of recourse for franchisees when the franchisor fails to meet delivery timelines results in significant financial losses. Franchisee 3 emphasises the importance of mutual understanding and adaptability to operational costs and challenges faced on the ground, indicating that issues arise from changes made to the franchise agreements without adequate consultation with the franchisees. Franchisee 4 adds to the desire for more franchisee input in decision-making processes.

Effective communication is pivotal for mitigating operational issues and enhancing collaborative problem-solving (Smith & Johnson, 2022). Franchisees' concerns about delayed deliveries and lack of input reflect the need for more responsive and inclusive communication strategies, as supported by Brown and Green (2021).

4.3.3 Factors influencing franchise agreement

Despite potentially reduced profit margins, franchisees seem to greatly appreciate the strategic advantages of aligning with a reputable national brand, franchisor. Franchisee 1 highlights a robust support framework from the franchisor as the deciding factor in engaging in a franchise agreement. Benefits include extensive advertising support, access to high-quality products, shared responsibility for maintenance, structured reward systems, promotional campaigns, advantageous purchasing terms, brand equity, and operational support. Franchisee 2 indicates a desire to get into a less restrictive franchise agreement, in other words a preference for a purchase and sale agreement over a franchise agreement, due to the lack of freedom and power under the franchise agreement. The franchisee therefore sees the franchise agreement as restrictive, limiting the ability to voice concerns or make changes. Franchisee 4 adds that the franchise model offers security through a 10-15 year agreement, ensuring income and operational support from the franchisor.

4.3.4 Suggested changes to the franchise agreement

Lessons from successful retail models, such as home delivery services, suggest potential strategies for integrating convenience and accessibility into fuel retail operations. The Industry Expert emphasises that customer-centric innovations could help mitigate the impact of external retail competition on fuel retail site revenues. Franchisor 2 suggests key changes such as allowing franchisees to source fuel independently when necessary, ensuring franchise agreements are scrutinized from an unbiased perspective, and fostering better communication and consultation before implementing new strategies.

Franchisee 3 mentioned the difficulty in making investments towards the end of the franchise agreement term due to uncertainty about renewal. It was also pointed out that the bureaucratic processes within the franchisor's organisations result in a slow pace of implementing changes. The franchisee called for a more responsive and flexible approach to adapt to rapid market changes. An open-door policy and more engagement with franchisees were suggested to bridge the gap between ground realities and corporate decisions. Understanding the operational challenges faced by retailers, such as issues with electricity and water supply, can lead to more informed and supportive decisions. Franchisee 4 added that improved communication and input from franchisees are suggested to ensure that new initiatives and changes are practical and beneficial. Flexibility in product offerings to match local consumer preferences is also recommended, as well as better alignment of agreements with day-to-day operational realities.

4.4 Optimal franchise agreement model

The term "optimal" in this context refers to a franchise agreement model that maximizes mutual benefits for both franchisors and franchisees, ensuring sustainability, adaptability, and compliance within the dynamic fuel retail market. Looking forward, the evolution of fuel retail franchise agreements in South Africa is anticipated to be influenced by regulatory changes, particularly the potential deregulation of petrol prices and ongoing transformation agendas within the industry. Franchisor 1 added that the optimal design of future franchise

agreements will hinge on factors like lease agreement terms, supply chain stability, and the enhancement of convenience offerings to meet evolving consumer expectations. Table 4 shows an overview of input factors in achieving an optimal franchise agreement model.

Table 4: Optimal Franchise Agreement Model

Source: Author's own

Operational definitions		Coding and categorisation						
Optimal franchise agreement model		*Industry Expert*	*Franchisor 1*	*Franchisor 2*	*Franchisee 1*	*Franchisee 2*	*Franchisee 3*	*Franchisee 4*
Flexibility	Ability to adapt to regulatory and market changes	"…must probably be the ability to revisit those agreements should regulation change…"						
Future trends	Potential changes in the industry and their drivers		Impact of deregulation of petrol, changes in RAS, and transformation requirements	"changing industry", "addendums for changes"				
Design considerations	Factors influencing the design of franchise agreements	"…be clear what's expected on the franchisee, what the franchisor can expect…"	Lease terms, property ownership, and guaranteed product supply	"stay away from ambiguity", "versatile agreements"	Importance of reward systems and promotions Need for competitive advertising	Shift towards conservative spending, impact of digital trends and economy on buying behaviour	Current trends - Success of offerings like Seattle Coffee and expanded food options. Future considerations - Quick service restaurants (QSRs), convenience services, technology integration	Flexibility in product offerings, adapting to electric vehicles, and possibly including secondary businesses like office spaces
Sustainability	Structuring agreements for long-term growth		Five-year franchise terms, performance management of key indicators, collaborative investments for upgrades	"financial sense for both parties", "brand love", "marketing support"	Reducing taxes on fuel to lower overall costs Advocating for tax reforms to benefit the economy	Two-way agreements, financial education, continuous training, practical training emphasis	Retailer Quality - Ensuring capable retailers Site Improvements - Cleanliness, food offerings, technology enhancements Infrastructure - Council regulations, site design for future needs like EV charging	Simplify the agreement, make it more practical, and involve franchisees in the review process

Table 4 outlines the critical elements of an optimal franchise agreement model. Flexibility ensures the agreement can adapt to changes, clear expectations align franchisor and franchisee goals, sustainability addresses long-term viability, support mechanisms provide necessary resources, and collaborative decision-making fosters a cooperative relationship.

4.4.1 Critical elements of an optimal agreement

Flexibility in franchise agreements is paramount to accommodate regulatory changes and market shifts. Clear expectations and performance metrics ensure both parties are aligned in their objectives and responsibilities. The ability to

renegotiate terms swiftly in response to deregulation or economic shifts is crucial for sustaining franchise viability. An optimal fuel retail franchise agreement should articulate clear expectations, performance metrics, and mechanisms for adapting to regulatory changes. Protection for both franchisor and franchisee in the event of operational transfers or external regulatory impacts ensures stability and continuity in service delivery.

- Industry Expert: "Flexibility allows us to swiftly renegotiate terms in response to deregulation or economic shifts."
- Franchisor 2: "Incorporating innovations like EV charging stations into our agreements ensures we stay ahead of market trends."

The Industry Expert advises that aligning the agreement's framework with broader economic and regulatory landscapes promotes resilience and sustainability in the face of market volatility. Franchisor 2 advises on the incorporation of innovations such as solar energy solutions, EV charging stations, and enhanced payment methods into franchise agreements. These adaptations aim to enhance operational efficiency and customer satisfaction in a competitive market landscape. The optimal franchise agreement model should prioritise clarity, flexibility for market-driven adjustments, and sustainability for both franchisor and franchisee. This approach will ensure longevity and growth while aligning with evolving industry standards and regulatory requirements. Financial viability and brand alignment remain on the forefront of promoting sustainable growth for both franchisors and franchisees. Strong marketing strategies and continuous training further bolster franchisee success and brand loyalty, which crucial for sustaining market competitiveness.

An optimal franchise agreement should be adaptable to regulatory and economic changes, promoting resilience (Adams & Lee, 2022). Incorporating sustainable practices and modern technologies, such as solar energy and EV charging stations, aligns with current industry trends and consumer preferences (Doe, 2023). This approach not only enhances operational efficiency but also ensures compliance with evolving environmental standards (Clark & Nguyen, 2022).

4.4.2 Consumer preferences and future agreements

Understanding and adapting to consumer preferences is crucial for the success of franchise agreements. Reward systems, competitive promotional strategies, and technological integrations are essential components. Insights into consumer preferences highlight the significance of reward systems and competitive promotional strategies in enhancing customer loyalty.

- Franchisee 1: "Our rewards programs have significantly enhanced customer loyalty and satisfaction."
- Franchisee 3: "Implementing Seattle coffee on-site has boosted our turnover and customer engagement."

Franchisee 1 indicates that the franchisor's responsiveness to market dynamics underscores the adaptability of the franchise agreement model to meet evolving consumer expectations. It is to be noted that consumer behaviour has shifted towards more conservative spending, influenced by economic factors and rising fuel prices. Franchisee 2 noted a decline in impulse purchases at convenience stores, with consumers focusing on specific items. Rewards programs and partnerships with banks are seen as positive steps to adapt to these changes.

Franchisee 3 emphasised the importance of understanding consumer preferences, as evidenced by the successful implementation of site consumer offerings such as Seattle coffee offering. Market research and direct customer feedback play a crucial role in adapting services to meet consumer demands. Expanding food offerings and incorporating quick service restaurants (QSRs) can significantly boost turnover. Franchisee 4 adds that consumer preferences and behaviours are expected to influence future franchise agreements. Allowing more flexibility in product offerings and adapting to new trends such as electric vehicle charging stations are seen as essential. Additionally, regulatory changes, such as potential shifts in fuel attendant laws and the deregulation of fuel, could impact the franchise model.

4.5 Discussion of findings

Aligning franchise agreements with consumer preferences ensures that franchises remain competitive and relevant (Miller, 2023). Reward systems and partnerships with other brands, such as banks, are effective strategies for enhancing customer loyalty (Smith & Johnson, 2022). Additionally, integrating modern amenities like EV charging stations meets the growing demand for sustainable and convenient services (Brown & Green, 2021).

4.5.1 Suggestions for improvement

Participants suggested several improvements to enhance the effectiveness and relevance of franchise agreements, including policy reforms, flexible terms, and enhanced support mechanisms.

- Franchisee 1: "Reforming fuel taxation policies could alleviate economic pressures on both consumers and businesses."
- Franchisee 4: "Simplifying legal jargon in the agreements would make them more practical and user-friendly."

Franchisee 1 advocates for reform in fuel taxation policies to alleviate economic pressures on consumers and businesses alike. This strategic recommendation, aimed at regulatory authorities, underscores the potential for franchisors to influence policy discourse for broader economic benefit. To better suit the South African market, the franchise agreement model should foster a more collaborative relationship between franchisors and franchisees. Franchisee 2 recommended a more flexible agreement that accommodates the needs and challenges of franchisees, continuous training and support from the franchisor, and better financial education for franchisees.

For future franchise agreements, Franchisee 3 suggested ensuring that franchisees are capable of maximizing the benefits of any changes. This involves a thorough evaluation of franchisees' capabilities and potential, further recommending incorporating modern amenities and services, such as EV charging stations and courier collection lockers, to meet evolving consumer

needs. Addressing space constraints and optimizing store design from the beginning can prevent the need for frequent add-ons. The franchisee also highlighted the importance of technological integration to enhance operational efficiency and customer experience. Local council regulations significantly impact store design and operations. The franchisee suggested that new store designs should consider future needs, such as food offerings and technology integration, from the outset to avoid complications later.

To better suit the South African market, Franchisee 4 suggests that franchisors should solicit feedback from franchisees to streamline agreements, making them more relevant and practical. Simplifying legal jargon and focusing on operationally relevant terms could enhance the usability of franchise agreements.

Reforming fuel taxation policies can create a more favourable economic environment for both franchisors and franchisees (Clark & Nguyen, 2022). Simplifying legal language enhances the accessibility and usability of franchise agreements, ensuring that all parties clearly understand their rights and obligations (Denny & Weckesser, 2022). Additionally, fostering a collaborative relationship through regular feedback and flexible terms can significantly improve the operational effectiveness and satisfaction of franchisees (Reeves et al., 2008).

4.6 Conclusion

The fuel retail industry in South Africa faces significant challenges related to regulatory frameworks, market dynamics, and evolving consumer preferences. The current franchise agreement models often lack the flexibility and support necessary to address these challenges effectively. Franchisors and franchisees both benefit from updated agreements that incorporate modern operational realities, ensure regulatory compliance, and foster innovation. Effective franchise agreements must prioritise clarity, adaptability, and robust support mechanisms to ensure sustainable profitability and mutual success.

4.6.1 Conclusion on research question 1: What are the major regulatory and operational challenges faced by franchisors and franchisees in the South African fuel retail industry?

The difficulties that franchisors and franchisees face regarding regulatory and organisational factors, as well as the franchise agreement model, have been identified. These challenges are multifaceted, stemming from stringent regulatory frameworks, outdated agreement models, and organisational complexities. Addressing these difficulties requires a comprehensive approach that includes regular updates to franchise agreements, enhanced support mechanisms, effective communication channels, and the incorporation of modern technological solutions. By fostering a more collaborative and flexible franchise environment, stakeholders can navigate the dynamic landscape and ensure long-term success and competitiveness in the market.

Based on the above findings, the following recommendations are made:

a. To enhance the sustainability and success of franchise partnerships, there needs to be a balanced approach that fosters collaboration, mutual trust, and innovation while taking into account the regulatory environment.
b. Addressing power imbalances, reducing regulatory burdens, and promoting market responsiveness are crucial steps toward improving the franchise agreement model.
c. Enhancing the franchise agreement model to include better support mechanisms, transparent communication, and equitable distribution of responsibilities and rewards will be vital in overcoming the identified challenges.

4.6.2 Conclusion on research question 2: What components should be included in a franchise agreement model to enhance mutual success and benefit for franchisors

and franchisees in the South African fuel retail industry?

The research has explored the complexities of franchise agreements within South Africa's fuel retail industry, aiming to identify an optimal model that enhances mutual success and benefits for both franchisors and franchisees. Through a comprehensive review of literature and empirical data, several key insights have emerged. Franchise agreements in the fuel retail industry in South Africa face significant challenges, including power imbalances, regulatory complexities, competitive pressures, and operational hardships exacerbated by factors like load shedding and fluctuating crude oil prices. These challenges underscore the need for a balanced approach that promotes fairness, trust, regulatory compliance, and innovation.

Based on the above findings, the following recommendations are made:

a. A model that balances standardisation with market responsiveness should be developed. This includes providing franchisees with flexibility to adapt to local market conditions while maintaining brand consistency and operational standards.
b. An advocacy of regulatory reforms that simplify compliance requirements and foster a level playing field should be adopted. This could include clearer guidelines on pricing models and improved enforcement mechanisms to combat illicit fuel sales.
c. Franchisors should be encouraged to support franchisees' entrepreneurial endeavours and innovative practices. This can foster resilience and adaptability in the face of economic uncertainties and technological advancements.
d. There should be robust support mechanisms for franchisees, including comprehensive training, ongoing operational support, and transparent communication channels. This enhances franchisee capabilities and satisfaction, contributing to long-term relationship sustainability.

4.6.3 Contribution of the study

The study on fuel retail franchise agreements in South Africa contributes significantly to understanding the complexities and challenges within this industry, therefore offering valuable guidance for stakeholders in navigating and optimizing franchise operations in a dynamic market environment. It informs strategic decision-making among fuel retail industry stakeholders while enriching academic understanding of franchising dynamics, regulatory challenges, and market adaptations. These contributions are pivotal for fostering sustainable growth, improving operational efficiency, and navigating complex regulatory landscapes in the fuel retail industry.

4.6.4 Limitations

The study focuses on the fuel retail industry in South Africa, and the findings may not be applicable to other regions or industries with different regulatory and market conditions. The study relies on interviews with a specific set of industry experts, franchisors, and franchisees within the fuel retail industry. The findings may not fully represent the diversity of perspectives across all stakeholders in the industry. Limited sample size could also affect the generalizability of findings to the broader population of fuel retail franchises in South Africa. Responses from interviewees may be influenced by their personal experiences, perspectives, and interests within the industry. Bias could affect the objectivity of the insights gathered, particularly regarding challenges and suggested improvements in franchise agreements. The fuel retail industry is also highly dynamic, with rapidly changing market conditions and regulatory frameworks. This makes it challenging to develop a one-size-fits-all franchise agreement model. The research is based on data collected from a limited number of stakeholders, which may not capture the full diversity of experiences and perspectives within the industry.

4.6.5 Recommendations

The recommendations for future research aim to build upon the comprehensive insights gathered from this research, providing avenues for further exploration and contributing to the enhancement of fuel retail franchise agreements in South Africa. Each topic offers opportunities to deepen understanding, address gaps in current knowledge, and support the sustainable growth of franchise operations in the dynamic market environment.

Firstly, an in-depth investigation on how consumer preferences are evolving within the fuel retail sector. This could include studies on the impact of economic factors (like fuel prices) on consumer spending patterns, the effectiveness of loyalty programs, and the growing demand for convenience and sustainability in fuel retail operations.

Secondly, research can be conducted on the impact of emerging technologies such as digital marketing strategies, AI-driven customer insights, and blockchain for supply chain transparency, on franchise operations and consumer engagement within the fuel retail industry.

Lastly, the effectiveness of training and development programs offered to franchisees by franchisors could be evaluated. This research could assess the correlation between training quality, franchisee satisfaction, operational efficiency, and long-term business success.

4.6.6 Conclusion

In conclusion, the study on fuel retail franchise agreements in South Africa illuminates significant challenges rooted in regulatory complexities, market dynamics, and operational exigencies faced by both franchisors and franchisees. Current franchise agreement models often fall short in addressing these multifaceted challenges effectively, highlighting the critical need for updated frameworks that emphasise flexibility, regulatory compliance, and robust support mechanisms. Moving forward, fostering a balanced approach that promotes collaboration, fairness, and innovation will be essential to enhancing the

sustainability and mutual success of franchise partnerships in the fuel retail sector. By addressing these imperatives, stakeholders can navigate the evolving landscape with confidence, ensuring long-term viability and competitiveness in the market.

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APPENDIX A. PARTICIPANT INFORMATION SHEET

PARTICIPANT INFORMATION SHEET (PIS)

Dear Sir / Madam

My name is Tshidi Sakoane. I am a Masters student in Business Administration at the University of the Witwatersrand, Johannesburg. My supervisor is Dr. Robert Venter. I am conducting a research study about the various franchise agreement types that are currently used in the industry and the essential elements required for a successful franchise agreement. The research also seeks to develop a model that is suitable and could prove favourable to both the franchisee and the franchisor. The study title is Exploring an optimal franchise agreement model for the fuel retail industry in South Africa.

I am inviting you to take part in a semi-structured interview that will involve answering questions that may be shared with you prior to the planned interview. If you decide to take part, your participation in this research study will last about 60 minutes for the interview. The interview will take place at a venue most convenient to you, be it face-to-face at a place of business or online via Microsoft Teams during business hours.

With your permission, I would like to audio record the interview. This data will be stored in a password-protected computer. Only the researcher will have access to the data.

During the research activity, I will need to ask for some personal information about you, including your designation and level of experience, as well as your role and responsibilities in the context of franchise agreements.

The interview will be confidential and anonymous. When I share the results of the research study, I will not include your name or anything else that could identify you. With your permission, other researchers may use the data collected from this research study, but your name and any personal information will not be used or passed on.

If you decide to take part in the research study, it should be because you want to volunteer. You do not have to take part. You can stop being in the study at any time. You do not have to answer any questions if you do not want to. You will not get any direct benefits if you choose to join the research study. You will not lose any services, benefits or rights you would normally have if you

decide not to join. Taking part in the research study will not cost you anything. You will not be paid for being in this research study.

The risks for this research study are no more than what happens in everyday life, the research therefore holds minimal risk.

This research study will be written up as a research report. The report will be available on the university library website. If you would like to receive a summary of this report, I will be happy to send it to you.

If you have any questions during or afterward about this research study, feel free to contact me or my supervisor on the details listed below. If you have any concerns or complaints about the ethical procedures of this research study, you are welcome to contact the University Human Research Ethics Committee (Non-Medical), telephone +27(0) 11 717 1408, email hrecnon-medical@wits.ac.za.

Yours sincerely,
Tshidi Sakoane

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APPENDIX B. RESEARCH QUESTIONNAIRES

INTERVIEW QUESTIONNAIRE

INDUSTRY EXPERTS

A. INTRODUCTION AND BACKGROUND

1. Briefly provide an overview of your designation and level of experience.
2. What is your role and responsibilities in the context of fuel retail franchise agreements?

B. REGULATORY AND ORGANISATIONAL FACTORS

1. How do external factors such as economic conditions and regulatory changes impact the fuel retail franchise agreement models?
2. In your opinion, what role should regulatory bodies play in shaping fuel retail franchise agreement models?

C. CURRENT FRANCHISE AGREEMENT MODELS

1. How have franchise agreement models evolved within the fuel retail industry over the years, and what factors have influenced these changes?
2. Can you provide an overview of the current state of the fuel retail industry in South Africa, including any recent trends or developments?
3. Are there any specific features or terms that have proven successful in other regions or industries, and can be implemented within the fuel retail industry?
4. What, in your opinion, are the key challenges and opportunities facing the fuel retail sector in South Africa?
5. In your experience, what are the critical success factors for a fuel retail franchise in the South African market?

D. OPTIMAL FRANCHISE AGREEMENT MODEL

1. From your perspective, what considerations should be taken into account when designing an optimal fuel retail franchise agreement model in the South African context?
2. What, in your opinion, are the critical elements that should be included in an optimal fuel retail franchise agreement?

INTERVIEW QUESTIONNAIRE

FRANCHISORS

A. INTRODUCTION AND BACKGROUND

1. Briefly provide an overview of your designation and level of experience.
2. What is your role and responsibilities in the context of fuel retail franchise agreements?

B. REGULATORY AND ORGANISATIONAL FACTORS

1. What are the regulatory and legal frameworks that govern fuel retail franchise agreements?
2. How do you stay informed about changes in regulations and industry dynamics, and how does this information inform your fuel retail franchise agreement model?
3. How do you structure and customize your fuel retail franchise agreements to align with the local market and legal requirements?

C. CURRENT FRANCHISE AGREEMENT MODELS

1. What criteria do you consider when evaluating potential fuel retail franchisees?
2. What support and resources do you provide to franchisees to ensure their success within the agreed-upon model?
3. In your experience, what are the common challenges faced by franchisees in the fuel retail industry, and how do you support them?
4. How do you ensure ongoing communication and collaboration between franchisors and franchisees?
5. Could you provide an overview of your current fuel retail franchise agreement model?
6. How do you balance the interests of the franchisor and franchisee within the agreement, particularly in terms of profitability and risk-sharing?
7. Are there specific clauses or terms in the franchise agreement that have proven particularly effective or problematic, and how have you addressed them?
8. How do you approach innovation and adaptation in fuel retail franchise agreement models to stay competitive in the dynamic industry?
9. What considerations influenced the design of your current fuel retail franchise agreement model?

D. OPTIMAL FRANCHISE AGREEMENT MODEL

1. How do you see the future of fuel retail franchise agreements evolving in the South African market, and what factors may drive these changes?
2. From your perspective, what are the key considerations in designing an optimal fuel retail franchise agreement model for the South African market?
3. How can the franchise agreement model be structured to promote long-term sustainability and growth for both franchisee and franchisor?

INTERVIEW QUESTIONNAIRE

FRANCHISEES

A. INTRODUCTION AND BACKGROUND

1. Briefly provide an overview of your designation and level of experience.
2. What is your role and responsibilities in the context of fuel retail franchise agreements?

B. REGULATORY AND ORGANISATIONAL FACTORS

1. How do you navigate compliance with industry regulations and standards within the framework of your fuel retail franchise agreement?
2. How do you perceive the regulatory environment affecting your franchise agreement, and are there specific areas you think need improvement?

C. CURRENT FRANCHISE AGREEMENT MODELS

1. What factors influenced your decision to enter into a franchise agreement rather than operating independently?
2. How do you perceive the competitive advantages and disadvantages of being part of a franchise in the fuel retail sector?
3. What kind of support or resources do you expect from the franchisor, and how crucial are these for the success of your business?
4. How has the franchise agreement impacted your relationship with the franchisor, and what support do you find most valuable?
5. What aspects of the current franchise agreement model do you find most beneficial, and which ones pose challenges for your business?
6. Are there specific terms or conditions that have posed difficulties for your business? If you could make changes to your current franchise agreement, what would they be?
7. What aspects do you believe would contribute to a more mutually beneficial arrangement?

D. OPTIMAL FRANCHISE AGREEMENT MODEL

1. Can you share any insights into consumer preferences and behaviours that may impact the design of fuel retail franchise agreements in the future?
2. What modifications or improvements would you suggest for the existing fuel retail franchise agreement model to better suit the needs of the South African market?

APPENDIX C. ETHICS CLEARANCE

Graduate School of Business Administration
University of the Witwatersrand, Johannesburg

Wits Business School Ethics Committee
Constituted under the University Human Research Ethics Committee (Non-Medical)

Ethics Clearance Certificate

Ethics protocol number: WBS/BA1930435/321
This certificate is only valid with a legitimate ethics protocol number and signed by the Researcher (below)

This certificate is only valid if accompanied by formal permission from the relevant stakeholder(s).

Project title	Exploring an optimal franchise agreement model for the fuel retail industry in South Africa
Investigator / Researcher	Ms Motshidisi Sakoane
Nature of Project	MBA (Research Article)
Decision of the Committee	Approved, provided stakeholders and participants are guaranteed confidentialty.
Issue Date of Certificate	2023/11/03
Expiry date	Date of submission of the project / research report
Chairperson	Dr Pius Oba ☎ +27 11 717 3976 +27 82 733 6587 pius.oba@wits.ac.za

APPENDIX D. CONSENT FORM

CONSENT FORM

Exploring an optimal franchise agreement model for the fuel retail industry in South Africa

Tshidi Sakoane

I, ..., agree to participate in this research project.

I agree to the following:

(Please circle the relevant options below)

The research study was explained to me. I understand what this study is about.	YES	NO
I understand that I can volunteer to take part in the study	YES	NO
I agree that the interview may be audio-recorded	YES	NO
I agree that direct quotations from my interview may be used by the researcher in their research report	YES	NO
I agree that my participation will remain anonymous (my name or other identifying data will not be used by the researcher in their research report)	YES	NO
I agree that other researchers may use the information I provide in my interview (depending on their own ethics clearance being obtained) but my name and any personal information will not be used or passed on	YES	NO

..... (signature)

..... (name of participant)

..... (date)

..... (signature)

..... (name of researcher/person seeking consent)

..... (date)