

Are You Making Progress? Are You Sure?

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Spring is coming! Although you may be in the middle of one of the most challenging years ever in the oilheat industry, the cold weather and grinding daily pressures will not last forever. That's why it is important for you, as a business leader, to take some time out to assess and evaluate the "big picture." It is your duty to prepare your company for next year, the next five years and even the next generation of owners.

How can you gauge the state of your company? How can you tell if you are making progress, or simply holding on? What are you doing well? What needs more work?

Just as it is important that you visit your doctor annually for a physical, maybe it is time for an annual check-up for your business. Your doctor will check your blood pressure, heart rate, cholesterol, weight – all indicators of the status of your health. Similarly, your oilheat business has its own vital signs, called "key indicators," that can help measure the health of the company.

What are the key indicators for an oilheat business? Each company is unique, but here are some basic ways to "take the temperature" of your business.

Customer value. Many companies make the mistake of looking at how many gallons they sell in a year, dividing by the number of customers, and assuming the number of "gallons per customer" has meaning. It doesn't. What does have significance is the overall value each customer brings to your business.

Positive value is a combination of gallons sold, the margin at which you sold them, equipment sales, and service revenue. If the customer has been with the company for a long time, that value is enhanced even more, mainly because you do not have to spend money to attract the business. Deducted from this overall value is the cost of oil, any hedging costs you incurred to protect the customer, the cost of equipment and service, and a portion of your overhead costs.

Plug some numbers into this equation and you will get a clearer picture of what each customer is worth to your business. This will

help identify which customers are “solid citizens,” and which are actually dragging down your profits and progress.

Department profitability. Yes, you are the leader of a company that has several different departments, including oil to installation and service. Perhaps you also have plumbing and HVAC in the mix. But it is a mistake to see an overall profit and be satisfied. One of your departments is the top performer in terms of efficiency and profitability. Another department is the worst performer, even if they are making a profit.

Break down each department as if it were operating on its own, and responsible for its own profit and loss. Find out which area is the most efficient, and which is lagging behind. Now you will know where you must focus more of your effort during the off season to correct any imbalances and shore up weaker areas.

Run the numbers. Break out revenue, direct costs and indirect costs for as many parts of your company as possible. Don't limit yourself to the big, visible items like oil, equipment and service. Include cost areas like office expenses, outside services, insurance costs, vehicle repair – everything you can count or measure.

This exercise will help identify areas in which you are spending too much money, and spotlight places that are operating efficiently. Dig deeper to find out why some things cost so much. Are your salaries too high? Paying too much for insurance? Phone bills running higher than expected? The numbers do not lie.

Compare. Isolating your financial performance for this year does you no good unless you have some perspective from which to judge it. Next year, you will be able to look back and compare your progress by the numbers against this year's results. For now, you may have to feel your way through it.

If you have an area that surprises you, go back one or two years and dig out the numbers for that department or overhead item. Do the breakdown for that specific area and see if you can spot a trend up or down.

You can also compare your numbers to other oilheat companies. Although each business is unique, it can help to see if you are “in the ballpark” with other companies of similar size, and in similar circumstances. There are two ways to do this. You can find one or two friendly competitors who are willing to exchange a peek into

their financial performance numbers (without revealing too much, of course). Or you can tap into our annual FuelTrack analysis to get a broad view of the “standards” of performance across the industry.

These are just four ways for you assess and evaluate the health of your oilheat company. However you approach the process, it is critical that you make a commitment to conducting such an analysis on a regular basis, measuring progress – or lack of progress – by the numbers.

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