

DO YOU KNOW WHERE YOUR "BREAK EVEN" POINT IS?

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Is your business profitable? Most oilheat dealers can answer that question with a fair degree of accuracy-for last year. You know how the numbers added up, and whether or not the ink on the books was black or red. But what about this year? Are you making money now? How many gallons will you have to sell this year before you turn a profit? At what price?

Knowing your "break even" point is a relatively uncomplicated yet important business planning tool. Having an idea of when your costs will be covered and profits begin can help you make better purchasing decisions, and is a vital part of the price setting process.

There is a way to determine your break even point without consulting a crystal ball or palm reader. Through a simple analysis of three key factors, you can know what it will take this year for your company to make money.

The first factor is the number of gallons you expect to sell this season. Analyzing your company's past history and factoring in predicted weather patterns will provide a fairly accurate gauge of what you'll be delivering this year. Your state oilheat dealers association can help you with degree day estimates and weather history. By determining how many customers you expect to have this year, and the average use per customer, you can come up with a total gallons figure.

The next factor is your margin per gallon. Like all retailers, oilheat dealers continually struggle with pricing. The object is to price your product - in this case, a gallon of heating oil - low enough to be competitive, yet as high as possible to make the maximum profit. Too often, this becomes an exercise in hand wringing, guesswork and gut reaction. Worse, many oilheat dealers simply copy the next guy up the Yellow Pages list, without regard to the differences in the two businesses. It need not be that way. Our break even analysis can help make this decision more clear cut.

The third factor in our break even equation is overhead (administration) costs. Again, an examination of your overhead costs (including payroll, rent, equipment, interest payments, insurance, taxes, etc.) from previous years will provide an indication of what your expected overhead will be for the upcoming season. We do not include the cost of product (oil) or owner's salary in this analysis.

At this point you have the information available to establish your break even point for two critical areas: gross margin and minimum gallons. Your break even point comes when total overhead cost is met by total gross margin.

How would this work in practice? What are you trying to establish? First, you want to know how many gallons you need to sell at your expected margin in order to break even. Second, you want to determine the minimum margin you need to achieve when you sell the expected gallons so that you will cover costs.

Let's take a simple set of facts. Your company expects to sell five million gallons, and your gross margin (sale price less the cost of product and delivery) is targeted at 30¢ per gallon. Finally, your overhead/administrative expenses run about \$1 million.

BREAK EVEN GALLONS - If you divide your overhead expenses (\$1 million) by your targeted margin (\$0.30), you establish the minimum number of gallons you need to sell before you show any profit. In our example, this would be 3,333,000 gallons ($\$1 \text{ million} \div \0.30). This tells you that the margin on every gallon after 3,333,000 goes directly to the bottom line of the company.

BREAK EVEN MARGIN - Here we are trying to establish the smallest margin you can get away with for all five million gallons you expect to sell. Once this level is set, you'll know that every penny added to the margin goes directly to the bottom line. If you divide your overhead/administrative expenses (\$1 million) by your total expected gallons (5 million) you show that your minimum margin per gallon is \$0.20.

In our analysis we do not include the owner's salary in the overhead expenses, as we consider company profit and any salary drawn by the owner to be part of the overall benefit of ownership. In your analysis, you might decide to include some part of your salary in the calculation.

This break even analysis is not complex. To be more accurate, we factor in degree days and market trends. But even in its simplest form, a break even analysis can be a powerful tool to help you plan your season's buying, and in determining a selling price for your product. You have the information on hand to make this analysis, and should take the time to sit down with your financial officer or accountant to locate your own "break even" point.

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