

## **Dealing with \$100 Oil.**

*By John Nardozi  
Nardozi Consulting, LLC*

By the time this article is published we may well be facing the reality of crude oil prices topping \$100 per barrel. I won't go into the insanity and greed that caused this incredible situation. It won't do any of us any good to bemoan the sad fact that wholesale oil prices are at such high levels. We just have to deal with it.

But how? How do we cope with prices that are more than five times higher than they were just ten years ago? Here are several steps can take to gird yourself, your company and your customers for what could be a very difficult heating season.

- Increase your line of credit. Talk to your banker or wholesale supplier immediately about raising the limit. You'll need the extra room in order to purchase oil later in the year, particularly if you have not bought contracts and are subject to rack rates.
- Look for better terms from your supplier. In addition to a higher credit limit, ask for longer payment terms. After all, your customers are likely to take longer to pay the higher bills that they will be receiving with each delivery. Keep in mind, however, that some wholesale suppliers may be facing their own credit crunch.
- Price protect. If you can possibly predict how much oil you are going to be selling in the coming few months, buy contracts to cover some or all of it now. Being too cautious or timid could put you in a competitive hole come February or March. If you are worried about a potential price drop, hedge your buys.
- Warn your customers. Sure they are reading all about the high cost of oil in the newspapers. But having the message come from you, with a rational explanation of the situation, is a good way to keep customers calm and manage their expectations. Be honest. Let them know that they may be paying \$600 for a tankful of oil in the coming months.
- Protect your margin. Believe it or not, it may be easier to maintain a strong margin when retail prices are \$3.00 per gallon or higher. Your margin (based on a "cents per gallon" formula) will be a smaller percentage of the overall retail price. However, you must be sure to include extraordinary costs in your margin, including hedging costs, interest on extended payment terms, higher diesel prices for your delivery trucks, etc.

- Offer price protection to your customers. I know that several dealers were “burned” last year when their contract buys turned out to be higher than rack rates. But that is probably the exception to the rule. If your customers are seeking the certainty that a price cap program provides, make sure you can meet that demand. If you offer protection to your customers make *sure* you get protection before you offer it to customers.
- Make your deliveries. If you did offer pricing protection to customers but did not pre-buy enough oil to cover your commitments – in other words, if you are “naked” in the market – don’t even think about blowing off those customers. After watching at least one retailer walk away from its commitments last year, the attorneys general in many states are watching closely, and are ready to come down hard in order to protect the consumer. Are you ready to go to jail?
- Be prepared for credit card sales. Many of your customers are going to be unprepared to pay cash or write a check for the higher cost of oil, and will be looking to use a credit card to pay you. Make sure you can accommodate them efficiently, with systems and processes in place to accept “plastic” payments. Also, negotiate now for the most favorable service fees on credit card processing. Some dealers are paying as much as 3% (\$.09 per gallon), while others are paying as little as 1% (\$.03 per gallon). Either way, be sure to cover these fees in your margin.
- Don’t sacrifice your future. Avoid the temptation to cut your margin and undercut the prices of your competitors. If you drop your prices at the expense of your margin, it will be very difficult to return to the correct price later this season or next year. In fact, there may not be a “next year” for your company. Hold those margins and maintain the value of your customer list – it is your most valuable asset.

*John Nardozzi of Nardozzi Consulting, LLC provides valuation, transaction advice and business management services for fuel oil retailers and distributors. He can be reached at (617) 487-4752, or [jnardozzi@nardozziconsulting.com](mailto:jnardozzi@nardozziconsulting.com).*