

## How NOT to Run a Fuel Oil Business

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Now that another heating season is drawing to a close, it is a good time to sit back and evaluate what you did right – and what you did wrong – in managing your fuel oil company. While many dealers are content to simply check if the front door still opens (“Yup! We’re still in business. Whoopee!”), those who plan on making a profit next year will begin the planning process immediately.

For years we have been dispensing advice on how to run a profitable oil company. But sometimes it is easier to spot the flaws in a system, and to correct mistakes. Here, then, are five ways to screw up your business.

1. **Chasing price points.** Are you the type of manager who rushes to open the morning newspaper just to find out what your competitors are charging for a gallon of heating oil that day? After all, how else will you know how much to charge your customers?

Setting prices based on your competition’s price is a chase game you cannot win. First, they will always be one step ahead of you, so price shoppers are likely to see and respond to the competition’s rock bottom offer before they see yours. In addition, your competitor’s cost structure may have little in common with yours.

The same applies to setting limits on your price cap program. If you set a price cap to meet competition and then the market spikes, you may end up paying part of your customers’ heating bills! You must set a reasonable ceiling and then protect yourself by purchasing enough oil via futures contracts (or commit to “wet barrel” purchases) in order to cover most or all of your anticipated needs.

In short, stand on your own two feet. In the end, the per gallon price or price cap ceiling you “borrow” from the competition may cut into your margin – or eliminate it altogether.

Which leads us to the next problem...

2. **Floating margins.** It is only common sense to set a proper margin before adopting a retail price. Yet too many set their margin on “gut instinct.” Or they adjust their margin during the season, giving away profit because they lack the nerve to stand by their decision.

It is important to estimate the margin you will need to be profitable before the heating season begins. Then, instead of adjusting your margin, adjust the factors that influence it in order to protect your

profit. (Apply the same logic to setting your price cap prices.) Don't sacrifice margin if at all possible!

Few dealers take into account all that goes into determining the right margin. The basics are: payroll, taxes, office expenses, selling costs, insurance, vehicle leases, employee benefits. But you also must factor in owner compensation, your personal retirement fund and weather trends.

Oh, one more item to factor into your margin: the loss your service department is going to generate this year as a result of...

3. **Giving away service.** If you are a full service oil dealer, the one advantage you have over a discounter is a fully staffed, highly skilled and motivated service department. So the first thing you do to attract new customers is to give that all away!

Free service as a promotional gimmick is double trouble. First, you have little chance of recouping any of the money – and it is real money – you spend on making service calls for free. Perhaps more devastating is the fact that you also devalue your entire service program. You will never be able to charge a proper price for a service call if the customer thinks it should be free.

Not to mention that you will always and forever be...

4. **Losing money on service contracts.** Our work with numerous oilheat companies has revealed that most dealers undervalue their service contracts to the point where, rather than being a profit center they become a loss leader. Until you fully understand all of the costs that go into fulfilling your obligations under a service contract, this money-losing trend is likely to continue.

Although it is tempting to see service contracts as "cash cow," they are actually a liability. The price of most service contracts will not even cover the real costs of a single call at a customer's home! Much more than the service technician's wages must be included in your cost structure, including parts, vehicle costs, insurance, benefits and training. It all adds up and is part of every service call. And rarely, if ever, does a service contract make a contribution to overhead.

If priced properly, service contracts can be a valuable part of your overall service to your customers. But don't diminish the value of your service department and cut into profits by discounting service contracts.

The money you will save can help you offset the loss you may incur because you are...

5. **Spending too much on each delivery.** No other single factor offers you a more immediate way to cut your costs and boost your bottom line than being more efficient in your oil deliveries. Conversely, deliveries that are too expensive can quickly bleed off profits.

Unless you carefully and conscientiously track the true cost of delivery, you will be unable to implement changes to improve efficiency in this area. (For a free "cost of delivery" calculator, visit our web site at [www.nardozziconsulting.com](http://www.nardozziconsulting.com).) Depending on geographic factors, you should be able to make a drop for \$20-\$25, including all costs, both obvious and "hidden."

If you are not in this range, take steps to get there. Modern technology has blessed us with marvelous routing and scheduling software programs that can have an immediate impact on your entire delivery process. Try to make each drop at least 175 gallons. And watch your driver and dispatch payroll costs carefully.

If you recognize any of these five problems in your own fuel oil business, take action! Any one of them can eat into profits. If they gang up on you, it could eventually put you out of business.

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