

## **Managing Your Margin**

*By John Nardozi*

As an oilheat dealer, it can be easy to get wrapped up the thousands of details that demand your attention each day and to forget an important fact: you are in business to make money. If there is no profit at the end of the day (or week, month or year), you are not going to be able to keep the doors open and the trucks rolling for very long.

That's why it irks me that so many dealers continue to misunderstand or simply ignore the most critical number they deal with: their profit margin. In an industry where product costs are in a constant state of fluctuation, and where cash flow rises and ebbs unpredictably, your margin should be a solid number that assures you of a reasonable profit.

*Start at the "break even" point*

Although the cost of product may vary from day to day (even hour to hour!), every dealer has fixed costs that are predictable. Payroll and overhead costs and expenses are usually stable and can be estimated accurately in advance. This is the starting point for determining your margin.

No matter how you measure it (cents per gallon or as a percentage of sales) your margin MUST be enough to cover your overhead costs and expenses. All of them. This includes payroll, rent, truck payments, insurance, employee benefits, advertising, office costs, equipment purchase or lease, legal fees, accounting fees, bank loans, paper clips and those little plastic stir sticks for your morning coffee. And include equipment loan payments, though not an expense they are certainly expenditures needing to be covered by profits.

Oh, and don't forget to include a little bit for profit. How much? Aim for a ten percent return on the estimated value of your company.

*Stay on top of your margin all year long*

If you get to the end of the heating season and you have no extra money and owe the bank more money than you expected, chances are you did not manage your margin well. How does this happen?

Even though you may have predicted overhead costs fairly accurately, stuff happens. Unforeseen expenses occur in every business. But it is a mistake to think that you must "eat" these costs. Instead, adjust your margin upward to incorporate the unexpected expenses.

Another, more sinister way that margin gets eroded is when you intentionally cut it for competitive purposes. When you lower your product or service prices to try and keep pace with the discount dealer down the street, your overhead costs do not automatically

get smaller, too. In fact, they remain the same. So lowering your retail price simply cuts into your margin, starting with the profit and then slicing into hard costs.

If you start selling oil or service at a price that is less than your cost plus margin, you are literally giving it away free. Worse, you are subsidizing the giveaway! Don't do it. You won't last long operating as a charity.

#### *Two ways to improve your margin*

An uptick in your margin of a few cents per gallon or a few tenths of a percentage point can mean the difference between making money and losing money. If you sell a million gallons and get an extra penny per gallon of margin, that is an additional \$10,000 in your pocket.

The best way to squeeze out some additional margin points is to take a deep breath, stiffen your backbone and — raise your retail prices. Is this a foolish step? You may lose that customer who is always looking for the lowest price. (They were probably going to go elsewhere eventually, anyway.) But I predict the loss of revenue from the few customers who leave will be more than balanced by the additional profit you will generate with a higher price.

Another way to increase your margin is to lower your costs. This is something you should always be looking to do as a good manager. Do you have too many trucks? Keep outside costs under control by knowing how much you should be paying for items such as insurance, health care, electricity and other services. Make sure you have enough staff on payroll to provide top-notch customer service, but don't overburden yourself with people who are "underemployed" or who do not contribute to the bottom line.

#### *Own your own margin*

Above all, don't let someone else dictate to you what your profit margin should be. Especially not another oilheat dealer. Every oilheat company is different, and blindly copying another company's pricing or being a nickel higher or lower can be disastrous.

Sit down every year and determine your "break even" margin, then decide how much profit you think you could make on top of that. Then manage your margin throughout the year to make sure you are not "shorting" yourself when it comes to making money.

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