

Margin Day

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For several years I have been beating the drum about the importance of margin to your oilheat business. If you are not pricing your product high enough to cover your actual, honest-to-goodness costs, with a little more added for profit, you are merely marking time until you go out of business.

You need to make money on every gallon you sell in order to pay for product, to pay salaries and wages, to cover all of your overhead, to fund the cost of program protection, to pay for the cost of borrowing (interest and principal, don't forget the loan principal!), to pay for technology and employee training, and to pay for community contributions. And let's not forget that profit!

The problem is, many dealers simply can't wrap their arms around all of the numerous factors that go into the cost of doing business. There are simply too many costs – some big and some small – that add up to the “break even” point. Even the most business savvy dealer has trouble keeping track.

That's why I am recommending that every retail fuel oil dealer schedule a day devoted to planning and preparing for the upcoming season. Let's call it “Margin Day.”

Margin Day should be the day to gather all of your company's resources together for a meeting to discuss what your margin needs to be for the upcoming season – and how you plan to get there.

Who should be invited to Margin Day? Here is the invitation list that I would prepare:

- **The company's owners.** Bring all of last year's financials and benchmarking numbers, and be ready to adjust them to anticipate the upcoming season's changes. You can get a list of key indicators from my on-line margin calculator (www.nardozziconsulting.com).
- **Oil supplier.** Your sales representative from your wholesaler can give you an idea of what fuel costs might be this season, and can help you lock in program gallons to protect your core customers.
- **Hedge manager.** Working in conjunction with your supplier, a good hedge manager can help protect you against wild swings in the market.
- **Accountant.** This is the person who can help you ferret out your real costs and assist in formulating projections for the coming season. Numbers don't lie.
- **Customer service manager.** Include the front line people who will be dealing with customers so that they understand the reasons behind

pricing decisions. They are the ones who will be defending your pricing structure.

- **Sales manager.** A good sales manager does not sell on price alone, but on the full range of services your company offers. Still, he or she needs to understand where your retail price will fall on the competitive market – and why – in order to be fully prepared to deal with prospective customers.

Put this cast of characters into a room, pour the coffee and do not leave until you have hammered out a pricing strategy for the coming season that covers your costs and allows room for a decent profit. Hold the meeting at your offices if possible, so that you will have access to any records you may need. But do not allow any interruptions – stay the course!

If you are open in your approach, diligent in your research and honest in assessing the market, you should be able to come up with a margin that works. And that should lead to a profitable season and healthier bottom line.

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