Don’t Be a Sucker.

By John Nardozzi, CPA, CVA

Despite the panic and anxiety in the oilheat marketplace, this is not the first season that things have gone terribly wrong. How will you make sure you are still standing when the snow finally melts and the season is over? Like a wily poker player, you must become a master at managing risk to avoid losing your shirt.

Risk is a part of our business. With risk comes the possibility that things could go wrong. Market timing, market strategies, collars, puts, calls – even the best minds in the business can't play the game without risk. But it is important to know which risks you should take and which you should leave alone. And that means having the insight to “know what you don’t know.”

Are you an option specialist? A Wall Street arbitrager? Or are you a refiner, producer or wholesaler? These are all specialist in their own worlds.

Too many oilheat and propane retailers believe they are also experts in these areas. They spend hours and hours trying to time supply purchases and play the market to squeeze out a few cents more profit. (Often at the expense of other aspects of their business, like customer service and new business development.)

Yet history has shown the retailer that he cannot win this game. Every year more dealers learn this painful lesson.

This season, as in past seasons, many dealers played the game by offering pre-sold inventory, or sold customers on fixed price plans and cap plans — but did not lock in the supply. The flawed logic behind this strategy changes with time.

- Initially the dealer thinks, "Customers demand or expect the programs and the competition is already out there with their plans. So I have to play along."

- Soon the rationale becomes, "I'll wait to lock in later in the summer when the prices will drop. They always drop.”

- Then comes, "I bought protection a couple of years ago and it was a waste of money."

- And finally, "I need the pre-buy money to clean up last seasons mess. I can make it up later."

Obviously mistakes were made and continue to be made. Dealers today are delivering product at fifteen to thirty-eight cents per gallon below cost. They cannot stay in business at that rate.

It gets worse. Many of these companies are finding themselves under investigation and in the news. Some have been convicted under consumer fraud laws. Most have had to close the doors and tell their customers to find fuel somewhere else.

Keep yourself out of trouble – both legal and financial — by following these simple steps:

- Lock -in supply, add the margin you require, add the cost of hedging and ***then*** offer customers a program. When those gallons run out and you see more demand do the same thing for the next offering.

- Calculate your needed margin. Talk to your suppliers and hire a hedge specialist to help you plan your buys to support your margin. Then make a business decision, not an emotional one.

- Charge an up front fee for fixed price programs and cap programs equal to the hedging cost for those gallons. Otherwise you are giving money away.

- Get a written contract with program customers that states the number of gallons, the cost per gallon and the fee for the program.

When you play Texas Hold-Em and you look around the table before the game starts, try to pick out the "sucker." If you look around and can't pick him or her out, guess what? You're it! Don't be a sucker. Your business is not a poker game.

Let's make the lesson simple this time: **"Buy when you sell and sell when you buy."** If you sell gallons or commit to a program you must buy the product or the hedging instruments to protect the margin your business requires to operate.

John Nardozzi of Nardozzi Consulting, LLC is a veteran oil industry management expert. He can be reached via email at jnardozzi@nardozziconsulting.com.