*by Philip J. Baratz, C.T.A.**

# "What do I tell my customers now?"

It's June, and while everyone should be getting ready to have a relaxing summer, there is an undercurrent of nervousness in the offices of many heating oil companies. Oil prices are at record highs, and no one knows where prices will be next winter. Even worse, no one is quite sure how to tell their customers what to expect. Will retail prices fall back to $1.25/gallon, or will they break above $3.00/gallon? Will they swing back and forth over the summer, or just go in one direction (up), like last year? What about those crazy low-ball offers for new customers? Many companies feel as if (perhaps rightly so) they are at a crossroads with regards to their pricing programs (whether they offer capped prices, fixed prices, or both).

While it is clear that speculation is not the way to stay in business, and that selling oil without making a profit is another way to fail, the fear of actually coming out with *the right price* is (in many cases) overwhelming. Despite the reams of evidence pointing out how expensive it is to run a successful heating oil operation, there is still this fear that if you set your price at the levels that you *need* to be successful, there will be rioting in the streets, and all your customers will go to the $1.49/gallon C.O.D. guy. If everyone recognizes that selling oil at a deep discount, with the hopes that no one will notice when margins suddenly jump up in year-2, just doesn't work—why do companies still do it? What is equally frustrating is that the offers often come from the market leaders, and all this while they are delivering oil to their "regular" customers at some of the highest prices in the area. When it comes to this type of marketing for new customers, all I can think of is the saying "we're lost, but we're making great time… ."

So, how do you set prices, and how do you let your customers know? Is sticker shock something that *your customers* fear, or something that *you* fear? The first part of setting the price offering is figuring out what you really need for your margins to be. I can't count the times that I am told what margins *muist be*, only to hear the next second that they are really 10 to 15 cents lower. If they *need* to be a certain level, why aren't they? The second part is for you to overcome the sticker shock that accompanies a good hedging program (remember, if you do not have a good hedging plan, and you offer a pricing program, you are setting yourself up for failure—in not this year, then next. If not next year, then the one after). Spending more money on options premiums than you net from the customer is quite daunting, *but* if you incorporate those costs into the sales price, then it is just another operational cost that *must* be collected during the sales process.

We can spend forever on the "tail wagging the dog" conversation (and with due respect to Editor Mike SanGiovanni, whose paper I'd rather not waste), suffice to say that when every call that comes in to your office has one complaint or another, your staff (and often, you) are correct that 100% of the calls are complaints. What is always missed is that only 3% of the customers are calling. Others may, indeed, be upset or bothered, but generally speaking, they have more important things on their plate (work, family, vacations, school, etc.), and are actually satisfied enough with things. We all make the mistake of allowing the small, but vocal, group of customers dictate policy (often pricing policy) for the products and services that we offer.

Think about it: Let's say that you feel that your price should be "x." Regardless of what your "x" is, you can count on two things. First, that some competitor will offer something 25 cents cheaper (whether or not this would achieve a profit for the competitor), and secondly, that a group of your customers will call claiming that although they have been buying oil from your family since the Civil War, they can get oil for 35 cents less, and unless you drop your price, they will "have to" leave. Here, you have three choices. The first is to say "don't let the door hit you on the way out." Perhaps the most logical, but clearly the hardest thing to do. The second is to negotiate some fair middle-ground *for that customer*, so as not to lose a good customer (who has been buying from you ever since the Lincoln Administration). That is a nice middle-ground that keeps your prices high enough for you, but has some flexibility, as well. The third choice is to assume that every one of your other customers is *not* at work,

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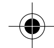

and *not* at home cooking dinner, and *not* at their kid's Little League game, but that all your customers are eavesdropping on the conversation. As a result, you might choose to lower your price to *everybody*. Perhaps even down to a (capped or fixed) level that makes no real economic sense, but does avoid conflict. This choice is the worst for you financially, but the best for you as far as employee morale goes (They hate those complaining phone calls that you, the rich oil baron, cause every year, when you send out that "stupid mailing"!). Please note that employee morale goes way down when companies are forced into layoffs because margins are 10 cents lower where they should, and need, to be. Make no mistake, other than a few (and you know who they are) customers who will go to their graves over $10, most are not *looking* for a fight. They are paying $2.50 per gallon to fill up their cars, and then getting telemarketed at night by "Bob" who is promising them really cheap heating oil. Affordability is an issue for many, and they do have the right to question, and if they want, to shop around. Selling heating oil is a contractual relationship, but it IS a relationship. You have been working at it for years, and as with all relationships (other than mine with my wife—who reads every article!), sometimes there is some stress. Since there is no way, given today's economics to avoid the stress, you need to plan and to prepare. You, also, need to make sure that your entire staff is prepared.

Are premiums high? You betcha. Are caps (and fixed prices) high? You betcha. Are customers going to call, and are some going to be upset and leave? Ditto. But are you better off offering a low-ball price to keep a small percentage of your customers happy—if just for one year? Do you really think that bowing to their pressure will satisfy them forever more, or for just this one year? Do you want to become the competitor that you have been complaining about for the last five years? Or, do you want to provide a premium product, and get paid the margins that you want?

We have worked with hundreds of companies in offering their programs. Since we earn our living trading, many look to us to tell them WHEN to buy—as if THAT is the secret ingredient to success. I'll clue you in—I don't know when to buy. I can tell you when NOT TO buy, but picking the exact time is hard, if not impossible. A hedging plan is invaluable, and MUST be done. We can certainly help you there. Executing a hedge plan (often hard to do, as it requires a series of decisions, and a series of emotions), is of great importance, and we can help there, too. Conveying the message that prices may be crazy next year, and that your company is there to provide comfort and price stability is also something we can help with. If you want, we can provide you with several samples. Let us know.

This is all quite scary, and not like anything we have seen before. We should all hope that prices will collapse, but be prepared in the event that they spike. Then, anything in between will be a breeze—a profitable breeze.