



FUTURES \$ OPTIONS



Who are you trying to kid?

by Philip J. Baratz, C.T.A., Angus Energy

To many oil dealers, there is nothing to do but to breathe a sigh of relief, now that we are at the end of this heating season. We saw gyrating prices at levels that made this winters' heating oil the most expensive ever, with annual prices 100% higher than in 2004, and 400% higher than in 1998. Of course, all of this occurred during a winter that seemed to stop on a dime in the middle of December—remember how cold it was in early December? The season was much harder on those who offered fixed prices than on those who offered a cap to their customers (after all that deliberation between fixed offerings and cap offerings, most delivered oil to cap customers was at lower prices than the fixed customers were paying), but not an easy one for anyone.

One of the more popular comments that we heard, as prices fell, and HDDs dropped, was “Well, I’ll just move this [expensive] oil through the rest of my system”—arguably, the “posted price” customers. Whether this was a means to avoid dealing with the fact that they owned oil 40-, 50-, or 60-cents higher than the current racks, or they REALLY believed that this was the best way to get rid of the oil, the notion that there was no real loss—because the posted price customers just made up the margin difference—needs to be investigated. Falling prices should be an opportunity to increase margins—on ALL accounts, not an opportunity to play with numbers. The logic is that since margins are weak in one area, they should be increased in another area to make up for it. Here is where I get confused. If your “variably priced” customers are willing to pay what amounts to an increased profit margin, why wouldn’t you charge that higher price whether or not you “needed to make it up”? Also, if you can get that extra margin, does that mean that you didn’t lose the money on the other (i.e. fixed price) part of your business? As logical as this may seem, especially when sitting down and discussing oil economics with a business owner, there are still (too) many out there that have decided that avoiding the realities is far easier than dealing with them. After all, if you have to face realities, you might have to make some changes—although those changes may make the business better, more efficient, and more profitable.

As noted earlier, this was a tough heating season. When HDDs refuse to show up, increased margins can only do so

much. Those who incorporated into the hedging strategy some protection against the weather (or lack thereof) were certainly better off than those who did not, but it is much better to make money the old fashioned way—good margins and good volumes—than to count on reimbursement from hedged positions. Please don’t get me wrong. The hedges did what they were supposed to do. Yet, too many still insist on self-insuring, a method that has had dire consequences over the past few heating seasons.

The message? Actually, there are two. The first is to avoid fooling yourself. You need to look at each aspect (program) that you have, and make sure that in all given environments—pricing and weather—that you set and reach targeted goals. The second is that we are at the beginning of the “Planning Season” for next year. Remember that if we don’t learn from mistakes, we are doomed to repeat them.

As volatile as energy prices were over this past year, you likely noticed that the migration of customers from one dealer to another wasn’t as great as we all may have thought. Most customers are aware (at least on a macro basis) that oil prices are somehow linked to world political stability, and that the swings are not the fault of the local heating oil distributor. More and more customers are part of some program—be it a cap program, or a fixed-price program. There are clear methods, easily explained, that can help make sure that regardless of the program that you put out there for your customers, you can plan for, and achieve, predictable margins. OUR pool of customers (clients) continues to grow. We look at that as a reflection of our programs and innovation. We also need to recognize that the natural growth of our business is also linked to the growth in programs that are offered. This year, we have added a plan to help fixed-priced (although we still are advocates for capped prices—we can explain why if you contact us) marketers make sure that their margins are predictable and lead to steady profits. This is in sharp contrast with the losses that many incurred this year on their fixed-price offerings. For details, contact us.

There is a new season to plan for. You can either do nothing, do some of the same things you have been doing, wait for someone to innovate (or copy) for you, or you can take the time to plan—and to execute that plan—so that next year won’t have too many surprises. □