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Qualify your losses, don't just quantify them.....

Over the past few months we have reviewed many different things. We reviewed the value of offering a fixed price versus offering a capped price (and vice-versa). We reviewed the true impact of the weather in combination with price volatility, and what that combination could do to the bottom line. We have looked at risk management (hedging) from several different angles, but all with a few underlying assumptions. Those assumptions were:

- No one KNOWS where oil prices will go over the next year.
- No one KNOWS how many HDD's there will be next winter
- No one wants to speculate on the Perfect Day to hedge
- Everyone wants to make a reasonable profit

In addition, and as picked up by most of our conversations with clients, we also still sense an almost irrational fear that customers will leave in droves if your program is more expensive than the "next guy's" program, although everyone claims to be marketing—almost exclusively—to their own customer base. The general belief is that the competition is targeting your customers. Without a doubt, there are companies who are out there, sometimes very aggressively, trying to get new customers. From a simple capitalistic perspective, all I can say is, "more power to them." The problem, again from a simple capitalistic perspective, is

that more often than not, the way to entice these "new" customers away from the "old" companies is with some sort of low-ball price offer.

Whether discounting the price of oil, giving away some free gallons, or throwing in a few years of free equipment service, the only thing that ends up ingrained in the minds of the "switched customer" is that loyalty is a wasted virtue, and that you can always shop around. The notion by the oil companies that say that they can break even, or even lose money to bring in a new customer, is premised upon the belief that the "new customer"—over time—will meld in with the rest of the customer base, and become part of an increasing profit center. Unfortunately, the solicitation itself acts as a virtual assurance that this "pipe dream" won't ever happen. With all due respect to the companies (and there are many out there) that deliver oil and perform equipment maintenance and service without a glitch, the customer—at least the one who was wooed away by the thought of saving a few bucks—will only care about that wonderful "experience" up until the time that his (or her) contract is due for renewal. Then, the "bad behavior"—a/k/a shopping around—will kick in. Can you really blame the homeowner for shopping around, if you (okay, not "you", but "the other guy") is the one who taught him to shop?

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come out with your pricing program—it doesn't matter if a cap or a fix, and it doesn't really matter (that much) at what price—you are destined to lose some accounts. Some just want to leave to “show who's in



charge”. Some were solicited by a low-ball competitor who will end up getting burned. But most have a hard time accepting that it is okay for a heating oil dealer to make a reasonable profit. In any case, if you were to look (as we have had a number of clients do) at the actual customers who are leaving for the “cheaper deal”, you will likely find that they were NOT long term customers, and actually might have been customers that you cut a “special deal” with—in the past few years. Will you / have you lost any long-term great paying customers (and their sister, cousin and aunt)? Certainly. But, when you really drill down into the numbers, you will USUALLY find that the good-ol' long-term customer is really yours to keep, and the short-term, more recent, “acquisition”—yes, the one who questions each bill, and always knows where he can get oil cheaper—is the one that is leaving.

If, for the sake of discussion, the above paragraph were correct (even mostly, if not entirely), doesn't that (a) make you feel a little better—even though you don't want to lose any customers, and (b) make you realize that lowering your price to ALL of your customers won't do you any good? You will still lose some of the “newbies”, and end up with smaller margins that you would or should be able to get from your core customers.

That is the question of quality versus quantity. I believe that it is universally believed that the quality of a customer—longevity, margin, service requirements, etc.—is what makes for a “good customer”. If the customers who are leaving, just because you want a decent margin for yourself, are these “good ones”, then you need to seriously consider what can be done to your business model to make it work for you, while retaining the customer base. However, if the ones leaving are the “shoppers” who have been taught bad (for you) habits, then you need to ask yourself if you aren't really better off....

No words of wisdom about trading, I'm afraid, but maybe a little logic about profitability. ◻