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Lessons learned

All of these phrases were uttered this past July. The question is how many of them were uttered by you?

"The traders won't let oil prices fall."
"The Hedge Funds won't let oil prices fall."
"OPEC won't let oil prices fall."
"The war in Lebanon will keep prices up."
"The Korean nuclear testing will keep prices up."
"The Iranian non-compliance (and general jerkiness) will keep prices up."
"We're already $2.30 a gallon; $2.75 and $3.00 are right around the corner—why would I want to buy puts?"
"My fixed price offer is 25 cents cheaper than my competitor's cap—I'll be laughing all the way to the bank."
"We can't have two warm winters in a row—we'll pass on the weather insurance."
"I'll do SOME hedging, but only when the market looks right."
"It can't be that hard to guess where prices are going."
"My supplier always works with me."
"I'm not going to hedge—it's too risky."
"I'm not going to hedge—it's too expensive."
"I'm not going to hedge—my customers won't leave me."
"Even if prices DO fall, my customers are going to use all the oil anyway. I just won't lower my price. They won't even notice."

If you haven't said any of the above, you are likely well hedged, and slowly, steadily making it through this very difficult winter. If you haven't heard any of the above from any of your industry friends, you are likely unable to hear.

So far, through the middle of January, as I write this, we are suffering through one of the toughest years ever to be a retail heating oil dealer. A "normal" October was followed by a very warm November and December. New York City saw temperatures in the 70s over the first weekend of the New Year, and energy traders are rooting for "normal" weather, let alone "colder-than-normal". I don't need to go on—so I won't—about the eerie quiet that the past three months have brought to oil company switchboards.

If there is good news—and you do have to look pretty hard—it is that retail margins (per gallon) are fairly strong—with the exception of those who sold fixed prices (and even worse for those who own fixed prices and have had customers quit on them). The bane of this season, thus far, has not been the severe decline in prices—at least not for those who were/are properly hedged. The issue this season has been all about the weather. Barring a shocking change in weather patterns over the second half of the winter, it is not a matter of IF the winter will be warm; it is a matter of HOW warm it will be. To those who have hedged against this season's warm weather—kudos to you. We have several hundred heating oil companies and end-users as clients; however the number of companies who participate in weather-related protection only numbers a few dozen.

So, why point out the obvious? It is certainly NOT to rub anyone's face in "it". It is because the real issue is ahead of us—not behind us. As we end the "winter", if you can call it that, and move into the spring, the "hedging season" begins all over again. Do you offer a fixed price? Do you offer a capped price? Should you lock in wetbarrels with your supplier, or just buy "call options"? Maybe, you don't want to offer anything at all. Are your customers willing to see their prices fall to $1.50 per gallon, and willing to pay $3.50 per gallon—if that is what the market has in store for us?

I really only have two messages in this column: The first is that regardless of all the logic, research, and history, if you really believe that you can accurately guess either what the weather will be, or where oil prices are headed (or the parlay of the two), you are very likely fooling yourself, and placing your company's financial future at extreme risk. If, and we can count this as a subset of the first message, you believe that your customers will be loyal to you regardless of what other (full-service) oil companies are charging, please note that the tide is changing. Yes, most full-service customers are very loyal. They do not spend all day shopping around for the best price; BUT at some point, the pain (caused by the spread between YOUR price and someone else's price) will start to matter. We all bank on customer loyalty, but we need to know that the loyalty will only go so far.

The second message, which has been heard before, is that without planning, you are just rolling the dice. One of our catch-phrases is "if you aren't hedging, you are speculating", and it is very true. If you can admit (which I hope you can) that you don't know—nor do any of us—where prices are going, or how many HDDs there will be in any given week, month or year, you NEED to assess what will happen to your business given the multitude of possible outcomes. Burying your head in the sand clearly doesn't work; nor does assuming that proper protection is too confusing and/or too expensive. "Planning" doesn't mean that you plan to think about it, at some point in time in the future, when things are slow…. Planning means sitting down—preferably with a professional, and in an environment where you can avoid interruptions—and mapping out a strategy that has the greatest likelihood of achieving success. Back to the catch-phrase of not speculating—whether you sit down with us, or with someone else, talking doesn't cost any money (or at least it shouldn't). However, NOT talking to someone, and not making and executing a plan, might turn out to be VERY costly.

Try these quotes for this spring....

"I don't know what oil prices are going to do."
"I don't know what the weather will be."
"I need to offer my customers something that is competitive."
"I made a plan."
"I executed the plan."
"I plan to enjoy my summer." ❑