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What do I tell my customers?

Not that this is any sort of newflash, but the past year has been the most volatile year ever in the energy markets, and with it came the most stressful year to be in the retail energy “space.” Even after the first Gulf War, we had some years that saw smaller price fluctuations than a number of individual *days* have had this year. For many, the past three months (and, as it appears, the rest of the winter, as well) have represented, by far, the best margins ever seen.

Unfortunately, the wild swings in prices and in customer loyalty has meant the curtain call for some companies that have been treading water financially for the past few years. Banks have started to call in some credit lines, and have started procedures to do the same on some long-term loans that, in the past, would have stayed in place. Meanwhile, suppliers (very understandably) have become increasingly nervous about dealers’ ability (and willingness) to pick up the contracted fixed-priced wetbarrels. We have started to see some consolidations, but much like real estate investors, the potential buyers are watching and waiting to see how good a deal they can strike.

On one hand, there are those who are enjoying the benefits of planning, executing and working very hard, and on the other hand, there are some who won’t be making it long enough to sell oil in 2009-10. So, what do you say to customers who are worried about their banks, their mortgages and their retirement accounts? In many cases, these customers were buying at rack-plus last winter (’07-’08), as prices moved up by about \$1.50 per gallon from where they started the season, only to go to the other extreme, and fix their price for the current heating season—as a reference, heating oil prices have fallen over \$2.00 per gallon since customers fixed their prices in late-June/early-July.

How much loyalty can and should be expected from customers who are seeing that all of the price swings end up hurting them? We know (all of us smart people in the oil business) that prices move without rhyme or reason, and that the fluctuating prices didn’t result in any extra profits, but seeing the increased level of “shopping” by fixed-priced customers this year should not be a surprise to anyone.

As we approach a new dawn in Washington, D.C., with a new administration about to take office, there are many questions as to where the economy is headed (the present, a/k/a/a deep recession, is pretty obvious), and what the new administration has in store for us. Hopefully (if there is any silver lining to the weak economy), increased income and capital gains taxes will, at least temporarily, be placed on the back

burner. However, what if they are not? What if the economy continues its tailspin? Are heating oil prices below \$1.00 per gallon really out of the question? We already know, from experience, that a robust economy can take us back to over \$4.00 per gallon.

So, we are back to the “what message should be sent to the customer?” question. What do customers want? They want to know that if prices drop—regardless of reason—they can expect to pay less. They want to know that if oil prices stay the same (as if that will ever happen!), they can expect their costs to be stable. They also want to know that if prices happen to spike (as they have been known to do from time to time), there is a limit on how much their costs will increase.

Customers also need to know that in return for pricing that gives them those kinds of benefits, there is a cost involved. Unfortunately, this past summer, as the costs to offer such programs increased, too many dealers tried to figure out a “better way.” Negative thoughts about what customers would be willing to pay, or how high prices could get before conservation kicked in, etc., were pondered. In truth, a \$4.599 per gallon fixed-price was probably MUCH easier to sell than a \$4.999 per gallon capped price—PLUS a \$99 sign-up fee. But, when the fixed-price customer is still paying \$4.599 (or, worse, has canceled his account), while the “capped” customer is paying \$3.299 per gallon, which is the better way to go? Customers need to understand this. How many customers are you going to lose by being honest with them?

There is a tendency in the retail industry, especially for those without very consistent program offerings, to simply assume that whatever happened this year is what will likely happen the following year. In our many meetings with companies who are prospective clients for hedging or consulting, we are seeing “issues” with banks and/or suppliers, and we keep hearing the same thing: “I just thought that price would do...”

If you are counting on running a successful oil business, and betting that success on your ability to predict the future of oil prices, is that really something you should be doing? If you have been playing the game that way, you are likely feeling a whole bunch of pain and pressure at the moment. If, however, you are playing the game by offering competitive prices, excellent service and absolute candor, you might be one of the companies looking to buy some of those mentioned earlier in this paragraph.

There are many great things about being an independent oil dealer, and there are a few bad ones. Of the two worst ones are the indecisiveness and inconsistency in program offerings. The second, which probably causes more trouble than the first, is the insistence of many companies to try to get customers with low-ball offers, and the hope that next year, the customer will magically forget they switched ONLY because of cost, and suddenly will be willing to pay full retail margins. This creation of shoppers ends up causing heating oil companies to do nothing more than “rent” customers for a year. Those same companies often lose as many customers as they add; but can the “new rentals” really be nearly as valuable as long-term customers with whom you have established a relationship based upon fairness, service and trust?

Crazy as it seems, the time to start planning for next winter is just about upon us. You don’t need to run around offering a program, and you don’t need to go out and buy a whole bunch of oil—yet. What is needed is taking the time to have a meeting, and to plan what it is that you want to do, and to work with someone to make sure that it happens. No one knows what the future holds, but we can be fairly certain that successfully predicting it today is an exercise in futility. Can your business and your family afford to be making those kinds of bets?