



Increasing the Profitability & Value of Your Business

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Strategic Planning * Business Valuations
Ownership Transitions * Project Management
Business Development

[Give Your Company the Cetane Boost](http://www.cetaneassociates.com)
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In order to cover all the subjects and still allow me to tell some long winded stories, I have posted this presentation and related materials on my website cetaneassociates.com.

Let me give you a quick rundown of the program. First I will talk about common business valuation methods, then I will get into the meat of increasing profits and then I will follow up with showing how these increased profits affect the value of your business. We will finish up with questions for the fuel marketers and me.



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“Old School” Valuation Methods

- Cents per Gallon
- Multiple of Margin
- Multiple of Gross Profit
- \$ Per Customer (GG&G Statistic)

This business used to be so simple. Everyone went to the rack, bought fuel, marked it up, made money on the fuel and gave the service away to attract the fuel business. There was competition to acquire fuel companies and the value of a business was based on how many gallons delivered, how many customers were on automatic delivery and what the margins were.

Buying and selling a business was easy. You met at a diner, the buyer wrote a number on a napkin and you worked out the details on the back of the paper placemat.

I am being a little simplistic here, but I don't think I am too far off from how many deals were structured.

Well, life is more complex now. Some companies still give away service but most now make a profit, and some make a substantial profit. As the average user burned less fuel we learned that we had to adapt to a new way of doing business. Many companies with the same gallons and margins have vastly different profitability.



OK now I would like to talk about Gandhi. I'm sure you can all see the smooth transition here.

Gandhi had a goal in his life and I have a goal in my career. Gandhi's goal was for an independent India through non violent protest. My goal is not anywhere near the magnitude of Gandhi's. My goal is that values of heating oil companies will **not** be stated in cents per gallon or multiple of margin, but on profitability.

The reason that I mention Gandhi is that I always look to successful leaders for inspiration and techniques. I tried to copy one of Gandhi's methods. When violence broke out in India, Gandhi said that he would fast until the violence stopped. I tried this but by around 1:00 I was getting dizzy so I decided to write this presentation instead.




Business Valuation Methods

1. Asset Approach
 - Trucks
 - Equipment
 - Inventory
 - Property
2. Income Approach
3. Market Approach

There are three basic approaches to valuing businesses. The asset approach to business valuation is based on the principle of substitution. A purchaser will not pay more for the assets than the cost similar assets. The asset approach is used to value items such as trucks, inventory and equipment which can be purchased on the open market. The value of those assets has a specific value based on comparable sales history.

The income approach considers the value in relation to the future benefits derived from owning the assets. This approach looks at cash flows related to the earnings of the business.

The market approach is based on the idea that supply and demand for the assets determines the value.

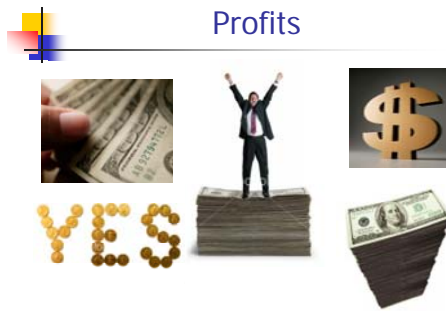


Common Income Approach Valuation Methods

- Cash Flow (EBITDA)
- Rate of Return (ROR)
- Internal Rate of Return (IRR)
- Return on Equity (ROE)
- Distributable Cash Flow (DCF)

In the fuel industry a majority of the value of the assets of a business are in customer list and good will. Tangible assets such as trucks typically make up less than 15% of a purchase price unless there is real estate involved. For this reason, most purchasers focus on the income approach to determine value.

The heart of the income approach revolves around profits!



Let's talk about profit for a minute. There may be some very altruistic reasons for being in business but businesses classified as non-profit are in business to make a profit. The non profits just give their profit to a charity.

Weather you are looking to stay in business, acquire a business or sell a business, the one common denominator is in profits.

Q: Do these generate more profits for your business?

- Sell more gallons?
- Get more customers?
- Sell more/new products/services?

Maybe?

Sell More Gallons: Not always. If you have price protected sales, they may be times when you don't want to sell any more gallons if the costs are greater than your sales price. We saw companies shed commercial business last year because there was no cash flow to support the gallons. If you have to drive 20 miles off your route to get to a delivery are those gallons making you money?

Get more customers: This is usually good, but not always, for some of the same reasons. Bigger is not always better.

Sell more/new products and services: This should be positive, but do you know what you are getting into. Have you set up a strategic plan to make sure that the time and effort will pay off? Many companies have invested time and money into diversification with negative results because they did not do their homework. If it was easy, everyone would be doing it.

The Meat



You can see from my choice of pictures why the Gandhi method just didn't work for me.

The meat of this program is to share with you some successful methods used by your fellow marketers to increase your profits.

Six Areas

1. Create New Revenue Sources
2. Increase Cash Flow
3. Convert Customers to Automatic Delivery
4. Increase Fuel Margins
5. Increase Service Profitability
6. Reduce Operating Expenses

There are many ways to increase profits, but I want to focus on these six as I believe they will have the greatest impact for your business.

Many consider this new for 2008 & 2009, but this is something that marketers who have been in business for half a century or more know well. We pride ourselves on helping our customers conserve and as a result we make lower profits on the sale of the fuel. We have a wave of legislation hitting us with the new administration and the successful marketers will embrace ways to have these changes successfully impact their businesses rather than commiserate with their fellow fuel dealers. This is an area where you need to put together a strategic plan, understand your capabilities and focus on other revenue sources. There are several business programs here today that will be covering this in more detail.

Increase cash flow is newer phenomena that we need to discuss and the other four are no strangers to anyone who has attended these programs before.



Increase Cash Flow

- Change your terms
- Instant Pay or Auto Pay
- Budgets
- Get paid same day for service calls
- If you feel you must sell price protection, sell prepay
- Change the service contract renewal date

Why do you give your customers 30 day terms when our suppliers are asking us for 10 days or less? Make payment due upon receipt and no later than 10 days. Electronic delivery systems where you leave a priced out ticket and envelope will help.

Get a credit card on file and charge the credit card the same day as the delivery. The credit card company gives them 30 day terms for you. Many fuel companies do this now and the customer does not even think about it. It's just how it's done. Yes, there is a cost in credit card fees, but some of that is offset by reduced bad debt and collection fees. Credit card fees have been drastically reduced in our industry.

I think everyone knows the advantages of a properly timed budget customer. Taking away that large bill to fill the tank is taking away another triggering event that makes customers more price conscience.

I found it very interesting this past year that some companies were scrambling to get bank financing. The industry was working overtime to have special revisions passed to get the SBA to recognize more fuel dealers as small businesses. There was frenzy about cash flow. Then there was this group of fuel marketers out there who did not have a concern. They actually benefited from the higher prices because they either collected the same day by charging credit cards or they had monthly budgets that they billed by credit card or automatic draft on the first of each month. They made additional interest income as they were being paid before they had to pay their suppliers.

When they fix my refrigerator or my washer or drier, the service tech walks out with a check or a signed charge card receipt. Would you rather collect on a service call when the work is done and the customer is satisfied or send them a bill two weeks later when the customer has time to consider how much they had to pay. The bill in the mail is a triggering event that leads to a phone call about the invoice and other questions about their account.



Advantages of moving renewal date to the winter

- Entire summer to perform tune ups/Improves routing
- Renews before oil agreements
- Improves cash flow as customers pay as winter winds down
- Utilizes service labor in slow months
- Lower cost for new customers in heavy sales months



Convert Customers to Automatic Delivery

Why should I when I make the same profit on all gallons?

- Summer Will Calls
- Route more efficiently
- Less phone calls
- Customer is not making a buying decision
- Less price sensitive customer
- Reduces conversions

Believe it or not, many marketers still do not fully grasp the advantages of automatic delivery. Every company I have ever talked with about buying their business has a customer base where their will calls are the “good” will calls and they buy “all” their gallons from them even though they are will call.

Unfortunately every statistic I have ever seen shows that will call customers are less loyal, use less fuel and are less profitable than automatic delivery customers.

The first Item I want to mention is summer will calls.

Different companies handle these customers differently. Some companies put the account on will call and ask the customer to give them a call when they want to get deliveries again. I highly recommend that you do not do this. As with regular will calls, it is difficult to know when a customer has left you. The recommended method is to print a ticket, put it in a box, note the account and call the customer in the fall to tell them they are going back on to automatic.

How to Convert Customers to Automatic Delivery

- Set Goals
- CSR Training
- Proactive Conversions
- Incentivize Customers and Employees
- Reactive Conversions - Ask them to Convert

I want to give you some of the basics for converting customers to automatic delivery. A much more detailed specific marketing program is available for free at cetaneassociates.com.

Set an overall goal of 60%, 70%, 80% etc. Get a specific number of accounts that this relates to. Break it up into monthly goals, then weekly goals and daily goals. Track and post the results.

Train your CSR's why it is good for the customer and the company to be on auto
Call will call customers on the coldest days after they received a delivery and explain the benefits

Coupons for Customers

Have a contest

Ask them to convert

How to Convert Customers to Automatic Delivery

Can we put you on automatic delivery service? It's free and you can still call in for oil if you think you are getting low.

If they say no, ask them why not!

There is no reason not to be an Automatic Delivery Customer

- We have a dog in the yard
- We only want to order fuel when we have the money
- I don't like my tank filled in the summer
- I have a wood stove
- I have a large tank and don't want a big bill

Here are some common objections that can be overcome.

Incentives to Convert

- Employee Incentives
 - Pay Them a Bonus
 - Have a Contest
 - Track Results
 - Post Results
- Customer Incentives
 - Free service call if you run out
 - Coupons to try

Once again, details can be found on the web site.

Margins



Fuel margin is the area where you can have the quickest impact on the profitability of your business. The first thing you have to get over is the notion that if you raise margin then you will lose business. That may be true for some of your customers, but the vast majorities do not make a buying decision based on price alone. It's the full package or the "Value Proposition"

CSP Daily News, April 13, 2009

2009 NACS State of the Industry Summit



Joe Petrowski

There was a great story in a recent publication from CSP Daily News quoting Joe Petrowski, the president and CEO of Cumberland farms and Gulf Oil told the NACS convention. I called Joe to confirm the story and ask him if I could quote him. He confirmed the story.

Not all of the industry's challenges come from external forces, noted Petrowski. "A lot of our wounds are self-inflicted" in fighting for customers at the expense of margin. And it's not just in the United States. He told the story of one retailer in Afghanistan who was selling gasoline for the equivalent of about 90 cents a gallon, in spite of the fact that the nearest competition was nearly 100 miles away, and on the other side of a steep mountain pass. When he told the retailer that the competition was non-existent, the retailer replied, "Yes, but I'm the lowest price in town. "

As amazing as this story is, I have encountered this type of pricing strategy in our business. We all deal with it every day. We need to understand that we offer the customer more than a commodity.



Industry Focus Group Results

What do customers look for when choosing a heating oil company?

1. Reliability of Service
2. Assured Supply
3. Pleasant Employees
4. Quick Response Time
5. Easy Billing
6. Financially Stable Company
7. Price of Fuel and Services

These focus groups were done three to four years ago, I and I am sure that price has moved up a slot or two, but I guarantee that it is not in the top three for a majority of homeowners.



The Average Fuel Company

Gallons: 2,029,349

Margin: \$0.530

Customers: 2,592

Profit: \$140,278

Profit per gallon: \$0.069

From Gray, Gray & Gray 2008 Oilheat Survey



Margin & Gallon Scenarios

	Base	5% Loss	10% Loss
Gallons	2,029,349	1,927,882	1,826,414
Margin	0.5300	0.5800	0.6300
Gross Profit	1,075,555	1,115,482	1,150,641
Customers	2,592	2,462	2,333
Expenses	935,277	920,057	904,837
Profit	140,278	195,426	245,804
Net Margin	0.0691	0.1014	0.1346

I calculated some worst case scenarios. To show the powerful impact margin has on the bottom line of a company. I factored in delivery expense savings and service profit losses. These are the results.

How Do You Raise Margins?

Method 1 – Ready, Fire, Aim

- Just Do It

Method 2 – Plan & Implement

- Test it
- Measure it
- Evaluate it

If you can't measure it you can't manage it. While most companies can be successful at raising fuel margins, with a well structured plan in place you can learn where your tolerance levels are and manage margin accordingly.

Making a chart of seasonal margins is one method to see how it affects your year end margin. 5 cents in January will put a penny on the bottom line for the year. 20 cents in July nets less than a tenth of a cent.

HVAC Service



Is there another industry that is on call 24 hours a day and will come to your home even on holidays and perform service work. Maybe a plumber and you are going to pay substantially for it.



Increase Service Profitability

- Analyze the true cost of a service agreement and price accordingly
- Know your service capabilities
- Have techs perform tune ups while on other service calls
- Tank Coverage
- Implement flat rate billing

How much does a service agreement actually cost you? Have you done the math and are you making a profit, or are you pricing off your competitors. The most profitable companies that I have worked with

Some companies do not have in house installers or are only able to do limited installations. If you are one of those companies, form an alliance with an HVAC company, run the sale through your business and make a profit on the work that is subbed out. In addition to the profit, customers are less likely to leave a company if they purchased a new heating unit from them.

Tank coverage is a great way to increase profits. Every program I have seen regardless if it is an outside company providing the expertise and marketing support, or an in house program, they all make money and give the customer peace of mind. This is another cog in the wheel of your value proposition.

In my observations the number one item that leads to increased service profitability is flat rate billing.



Advantages of Flat Rate Billing

- Higher Customer Satisfaction
- Less Billing Complaints
- New Equipment Sales
- Ability to Attract Higher Quality Tech
- Increased Profits

We have found that customers prefer to know the price for a product or service before they decide to make a purchase. The first question is typically “How much will this cost” before flat rate billing, we couldn’t give them a definite number, now we can and the customer appreciates that.

Between the customers knowing up front and a signature on a work order, it is difficult for them to dispute an invoice. We just don’t get the calls complaining about the bills anymore. There is no arguing that we billed for three hours and he was only there two hours. This leads to less work of adjusting customer accounts and putting through credits that may or may not hit their next statement.

We have found that many times on a high dollar repair, customers will ask about equipment upgrades. This has helped us to sell more new equipment.

A high quality technician now adds substantially to our bottom line as less call backs and a quicker repair become substantially more profitable for us. This allows us to pay more aggressively for a good tech and it also gives us a greater return on our investment in regard to tech training.

Overall, flat rate billing gives us a more satisfied customer, a more satisfied employee and more bottom line profits. It’s a no brainer; everyone in our industry should be doing this.



Reduce Operating Costs

- Credit Card Processing Fees
- Right Size Fleet
- Telephone Costs
- Service Parts Room
- Automatic Overtime
- Employee Benefits
- Pay appropriately

When we go into a company to perform a business analysis, this is the area where we typically find the most immediate opportunities. This is where the low hanging fruit is.

If you have not shopped your credit card processing fees and switched over to a utility rate type plan than you just don't like money.

Conservation has reduced delivered gallons over the last three years by at least 10%. Is your fleet now 10% smaller or do you still have every truck you ever purchased. If you park your vehicles inside and you can write wash me on the roof with your finger then you need to get rid of that vehicle. You are paying registration, property tax and maintenance on vehicles you don't use. I know you say it's a back up for emergency, but if you had an emergency wouldn't you be able to get by without it?

Telephone expense is one of the few expense items that have gone down over the years. There are companies out there will do this for you for a cut of the savings. Just Google "save me money on my telephone bill".

If you still have a service parts room you may have an opportunity to increase profits by eliminating it. A good analysis of your process can yield some substantial savings.

We spend so little time in analyzing this aspect of our business, but the cost savings can be tremendous with minimal effects to employees

I have to tell you a story about a company we were negotiating with to acquire. There were two sons working in the business as service techs. We agreed to pay each one \$21 an hour as that was the highest pay rate we had for our existing techs. The owner wanted them to make \$25 per hour. I plugged the higher rate into our financial model and came back to the owner and said that I may be able to work something out, but they would not get raises for several years and I would need to reduce the purchase price. The math worked out that for each dollar in pay per hour per person I had to reduce the purchase price by \$12,500. This equated to \$100,000 reduction in purchase price. The owner then asked me what the lowest amount we could pay his sons was.

If you do the same math and you have 20 employees, if you give them a \$1.00 per hour raise, the value of you business goes down by around \$250,000 unless you offset the cost with increased margin.



Stretch Time





Two Similar Companies

<u>Company A</u>	<u>Company B</u>
■ 2,000,000 gallons	■ 2,000,000 gallons
■ 60 cent margins	■ 60 cent margins
■ 2,500 customers	■ 2,500 customers
■ 1,750 on automatic	■ 1,750 on automatic
■ 1,500 service contracts	■ 1,500 service contracts
■ Fuel gross profit = \$1,200,000	■ Fuel gross profit = \$1,200,000



Ok, now we have looked at several methods to increase profitability and hopefully you can walk away from this program with some helpful information, but I know some of you are still asking how much per gallon are companies selling for.

Well in the next couple of slides my hope is to rid you of the cents per gall on valuation methodology. Let's look at two companies. They look very similar on the surface.



Company Statistics

<u>Company A</u>	<u>Company B</u>
■ Radius = 20 miles	■ Radius = 25 miles
■ Drivers in Jan = 6	■ Drivers in Jan = 7
■ Vehicles = 16	■ Vehicles = 17
■ Avg. Pay \$18.50	■ Avg. Pay = \$19.00
■ Total Employees = 16	■ Total Employees = 17
■ Health Co-Pay 30%	■ Health Co-Pay 10%
■ Sq/Ft Office = 2,500	■ Sq/Ft Office = 5,000



Now we begin to see some minor differences. B covers a little larger area and is keeping an extra driver on in case the gallons come back. B has some old vehicles that still ride well so he kept them because they offered them crap when he tried to sell them. B pays a little better than A, but he has good help who he has known for years. Last year B began to charge employees for health care. It used to be free. The facility is large enough to grow into so there is room for expansion.



Service Profitability

<u>Company A</u>	<u>Company B</u>
■ Contract Revenue @ \$175 avg. = \$306,250	Contract Revenue @ \$150 avg. = \$262,500
■ Non contract revenue = \$187,500 (\$75/cust)	Non contract revenue = \$125,000 (\$50/cust)
■ Installation revenue = \$312,500 (\$125/cust)	Installation revenue = \$125,000 (\$75/cust)
Total = \$806,250	Total = \$575,000



Company A has implemented a three tier service contract structure. They are using flat rate billing and they have a comprehensive sales program for new equipment.

As a note, companies like company A exist and some of them are your competitors.



Financial Results

<u>Company A</u>	<u>Company B</u>
■ G. P. \$2,006,250	G. P. \$1,775,000
■ Wages \$677,248	Wages \$739,024
■ Benefit @ 28% \$189,629	Benefit @ 32% \$236,488
■ Vehicle Exp \$75,000	Vehicle Exp \$85,000
■ COGS Service \$387,500	COGS Service \$287,500
■ SG&A & Other \$260,000	SG&A & Other \$280,000
Op Income = \$416,873	Op Income = \$146,988



Company "A" & Company "B" Comparisons to Industry Averages

- Income/Customer
 - Company "A" \$167
 - Company "B" \$59
 - GG&G 2008 \$54
- Operating Income
 - Company "A" \$416,873
 - Company "B" \$146,988
 - GG&G 2008 \$140,278



Company B is not a bad company; they are doing better than the average company, but look at the room for improvement. If you look more like company B than A, you have the opportunity to increase your profits.

So.....How Much is Co. A & Co. B Worth?

