

## Increasing the Profitability & Value of Your Business

Steve Abbate



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

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Thank you for the great introduction. I would also like to thank Eric DeGesero for inviting me and a special thank you to all the people working with Eric and his crew who put in a tremendous amount of time to bring you this fantastic event.

I would like to give a special thank you to Barry Kane from Kane Consulting. I work closely with Barry and he has been instrumental in helping me put this presentation together for you today.

I just love this Energy Expo. This my 20th year attending and every time I attend one of these business sessions I always gain some knowledge about the industry. The last time I attended a gathering this size was with my wife. We went to see Dr Love who spoke about relationships. In his opening remarks he asked the audience to raise their hand if they had intimate relations with their partner more than three times a week. Many of the younger couples raised their hands. He then asked how many couples fell into the three or four times a month group and people raised their hands. He then jokingly asked how many couples do it once a year. It was at this moment that the guy next to me jumped out of his seat and began to wave his hand back and forth and started to say me, me! Dr. Love couldn't ignore this so he asked him why he was so excited if he only had relations once a year and he said because tonight's the night!

It seems that every time I attend one of these business programs or even the Dr. Love seminar, I always walk away with a few good tools to use in business or in life in general.

My goal today is that you are able to walk away with some techniques to improve your business by making it more profitable.

Harry Hicks from HL Fuel in West Lebanon, NY  
Jerry Sclafani from Sclafani Petroleum in Carmel, NY  
Steve Ohl from RF Ohl Fuel in Leighheighton, PA  
Jay McCay from Farm & Home in Levittown, PA

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](http://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.

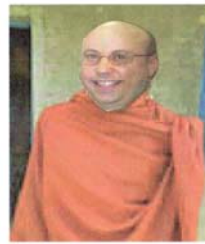
I am being a little simplistic here, but I don't think I am too far off from how many deals were structured.

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.



## Gandhi



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.

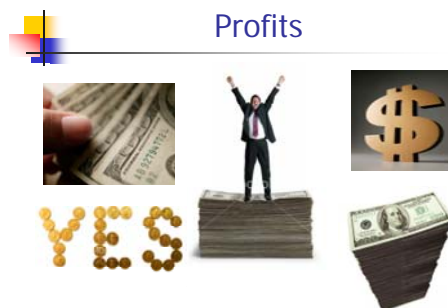
The market approach is based on the idea that supply and demand for the assets determines the value.

### 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.

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- 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

Harry Hicks:


We moved our service contract renewal date to March 1 for all of our customers. We found that we had the entire summer to get the tune ups done. If you have a customer who renews in April and one on the same block that renews in August, it would be nice to do both at the same time, but the one in August is typically not due yet.

By having the service agreement renew in March before we come out with our pricing programs, the customer feels a commitment to stay with us as they have already paid for the service agreement. It has helped with customer loyalty and attrition.

Most customers take a little longer to pay for their service agreements than they do for fuel, but having the cash come in for the spring helps with cash flow.

We sign the least amount of accounts in February through May. We sign the most in September through November. We prorate the service contract so the cost for a customer who signs up in October is less than half of the annual cost.

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.

In a moment I am going to ask Jerry Sclafani to talk about the operational advantages of automatic delivery, but first I want to talk about 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.

I would now like to introduce one of my clients to you. When I first met Jerry and Maureen I was impressed with their large full service heating Oil Company in New York. They had great trucks, a very sharp team in the service area and a great facility. I was shocked when I got into my business analysis phase of our strategic planning and I found out that a majority of their customers were will call.

Jerry & Maureen, like many of you, felt that the customer was loyal and if they kept their prices competitive they would not lose any business. I managed to convince them to implement a will call conversion program. Before I talk about how we accomplished the

conversions, I would like Jerry to tell us how the conversions effected the operations of the business.

Jerry Sclafani:


We always knew it was good to have automatic delivery customers, but we just figured if people wanted automatic delivery they would ask us. Steve recommended that we put a program in place to convert customers and I was amazed at how much easier it was to run the business. The drivers also saw the difference.

We were able to keep our routs tighter. This led to less driver hours and more gallons. We were able to actually cut out a couple of seasonal positions. The drivers were delivering more gallons per day and they had a feeling of accomplishment. Some guys were able to do three loads when they used to do two.

Because it was cold this winter we were also able to pick up more new accounts as we had excess driver capacity. We could put some deliveries off until the next time we were in the area and get to customers who needed fuel quickly

We also noticed that the phones were not ringing like they were the previous year but the volume was up. Overall the difference in operational efficiencies was noticeable.

Thanks Jerry!

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- #### 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](http://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

I would like to ask Jerry to speak again about how he rolled out his automatic delivery conversion program.

Jerry:

Steve came in and did a business analysis for us, he said that the first thing we needed to do was convert customers to automatic delivery. He said that improvements in margin and service profits could be made, but automatic delivery came first.

We had a phone conversation and agreed to have a meeting with all the employees in three weeks to roll out a program with a contest. In the meantime, Steve sent us wording to have the people on the phone say if a will call customer called in.



### How to Convert Customers to Automatic Delivery

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**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!**

Jerry Continued:

In the three weeks leading up to the meeting we converted 425 customers or around 8% of our will calls over to automatic delivery.

Since then we implemented the full conversion program and we have converted over 1,000 customers.

Thanks Jerry!

## 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

Steve Ohl from RFO Fuel, who will be speaking to you shortly, sent me an article from CSP Daily News. There was a great story in it that 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

## 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
<b>Gallons</b>	2,029,349	1,927,882	1,826,414
<b>Margin</b>	0.5300	0.5800	0.6300
<b>Gross Profit</b>	1,075,555	1,115,482	1,150,641
<b>Customers</b>	2,592	2,462	2,333
<b>Expenses</b>	935,277	920,057	904,837
<b>Profit</b>	140,278	195,426	245,804
<b>Net Margin</b>	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. But don't go by my spreadsheet; listen to people who have made the change.

I would like to ask Steve Ohl to tell us how he went through a major margin increase not once, but twice.

Steve Ohl:

The first time we had a major increase in margins was around six years ago. We are in a rural area in Lehigh, PA. It is a lower income area and our fear was that if we raised prices, we would lose business. Our margins were around 30 cents and it was not easy making a profit and providing the level of service we wanted to put our name on.

We increased our margin by 20 cents and while we lost some customers, most stayed with us for our service and because we had developed relationships with them.

Last year I attended this show and after hearing John Nardozi speak about percentage mark ups, we decided that we needed to increase margin because our costs were going up. We once again raised prices by 20 cents and even though people were very price conscience, they stayed with us. We want to be in this business for the long term and we know that we have to make a profit to keep our business healthy.

## 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. I would like to have Jay McCay from Farm & Home in Levittown, PA speak to you about the advantages of 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

Jay McCay:

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 your business goes down by around \$250,000 unless you offset the cost with increased margin.

### Stretch Time



### Two Similar Companies

#### Company A

- 2,000,000 gallons
- 60 cent margins
- 2,500 customers
- 1,750 on automatic
- 1,500 service contracts
- Fuel gross profit = \$1,200,000

#### Company B

- 2,000,000 gallons
- 60 cent margins
- 2,500 customers
- 1,750 on automatic
- 1,500 service contracts
- 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 gallon 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)
<b>Total = \$806,250</b>	<b>Total = \$575,000</b>




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
<b>Op Income = \$416,873</b>	<b>Op Income = \$146,988</b>

## 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?

