

# Margins - How Much Are You Worth?

Moving your company up the profit ladder

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**T**HE MOST OBVIOUS WAY TO INCREASE YOUR PROFIT IS TO increase your price or your margin. This sounds simple but you need to ask yourself some important questions before becoming the highest price company in town. How will a higher price affect customer losses? Will employees think we are gouging customers? Will friends and neighbors think less of me? These are good questions to ask, but you should add a couple more. Is our company worth more and why is it worth more? How will increasing the margin affect the bottom line if we do lose customers? Can we continue to grow our business if we charge more

than our competitors?

I recommend that you start at the bottom (the bottom line) and work your way up. We are in business to make money for our families first and foremost. We must be concerned about our employees and their families as well as our customers, yet we can't address either of those concerns before we address the financial needs of the company.

Most fuel marketers have revenues from both fuel sales and service/equipment sales. While this article uses fuel sales in the examples, the same principals should be used when pricing service.

Let me give you an example using Gray Gray & Gray's 2008 Oilheat survey. The base case column in Chart 1 is the results of

the survey for the average oil company. The \$140,278 is the average owner compensation or profit. The middle column is an example of an increase in margin of 5 cents and a 5 percent customer loss. If you notice, the 5 cent increase did not bring 5 cents to the bottom line. The reason for this is because of fixed overhead expenses. The last column is an example of raising margins by 10 cents with a 10 percent customer loss. Right now some of you are reading this and thinking I am nuts, while others are saying that this looks good so let's just raise margins. To both groups I want to remind you that I said we would work from the bottom up, so be patient and read on.

Most companies set their price by looking at the competition to see what they are charging. Some marketers want to be at the lower end to attract new business and keep the gallons flowing. Others want to be in the middle or slightly above the middle of the pack because they want to be making a little more than their competition and they believe they are worth it. The companies at the top of the price survey look at the profit they need to make and then price accordingly. They understand that if they are charging a higher price than their competitors, then they need to provide a greater value to their customers. This value is often referred to as the company's "Value Proposition."

The oil heat business is not a commodity business; it is a service business that involves a commodity. If we were a commodity business, we would not have large differences in selling prices between companies.

Are customers price conscious? You bet they are, yet they are much more value conscious than price conscious. When choosing a fuel marketer to serve their home, the customer values:



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	Base	5% Loss	10% Loss
Gallons	2,029,349	1,927,882	1,826,414
Margin	\$ 0.53	\$ 0.58	\$ 0.63
Gross Profit	\$ 1,075,555	\$ 1,118,171	\$ 1,150,641
Customers	2,592	2,462	2,333
Expenses	\$ 935,277	\$ 926,145	\$ 917,013
Profit	\$ 140,278	\$ 192,026	\$ 233,628
Profit per/gal	\$ 0.07	\$ 0.10	\$ 0.13
Profit per/cust	\$ 54.12	\$ 77.98	\$ 100.15

Chart 1

	Base	2% Loss	4% Loss
Gallons	2,029,349	1,988,762	1,948,987
Margin	\$ 0.53	\$ 0.58	\$ 0.63
Gross Profit	\$ 1,075,555	\$ 1,153,482	\$ 1,227,862
Customers	2,592	2,540	2,489
Expenses	\$ 935,277	\$ 931,624	\$ 928,044
Profit	\$ 140,278	\$ 221,858	\$ 299,817
Profit per/gal	\$ 0.07	\$ 0.11	\$ 0.15
Profit per/cust	\$ 54.12	\$ 87.34	\$ 120.44

Chart 2

- Reliability of Service
- Assured Supply
- Environmental Consciousness (being green)
- Pleasant Employees
- Quick Response Time
- Easy Billing
- Financially Stability

These are the intangible products we provide. Before you can get near the top of the price survey, you need to address the value you provide to your customers. If you believe that you are near the top of the intangible products offered, then you can move to the top of the price survey without having the customer losses. If you think it's not worth the effort or the investment, then let's look at Chart 2, which has less customer losses.

A key to the success of moving your company up the profit ladder is in having your employees believe in the overall product mix you offer, including the intangible products. The companies at the top of the survey have regular training programs to teach employees how to understand and provide the added value. Those companies understand that being involved in industry organizations does not just mean writing a check for dues, but rather getting the most out of the organizations by attending the training programs. NORA offers some of the most comprehensive training programs in the industry

and most of them are low or no cost to fuel marketers. Are you investing the time to make your company better? By sending your employees to these programs, they will appreciate the training and they will end up providing better service to your customers. This in turn increases your value proposition to the customer.

One method that has been used successfully to help employees and customers understand value is a customer newsletter. Is it expensive? Probably, but not if it helps you increase overall profitability by instilling the value proposition in your customers and your employees.

Another simple low-cost, proven method for having your employees understand why you are priced higher than your competitors is to speak with them. It sounds simple, yet most companies don't do it. I have found astounding results by just getting a group of employees in a room and asking them why they are worth more than the competition. If you do this, I encourage you to ask the question and then let your employees talk. You should be the one speaking the least at the meeting.

The last piece of advice I want to leave you with is that sometimes you will lose customers. Don't panic and change your business plan because a few customers can buy their fuel "cheaper" somewhere else. If you have tried your best and you feel good about the value you offer your customers, then you will be successful. | **FO**

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