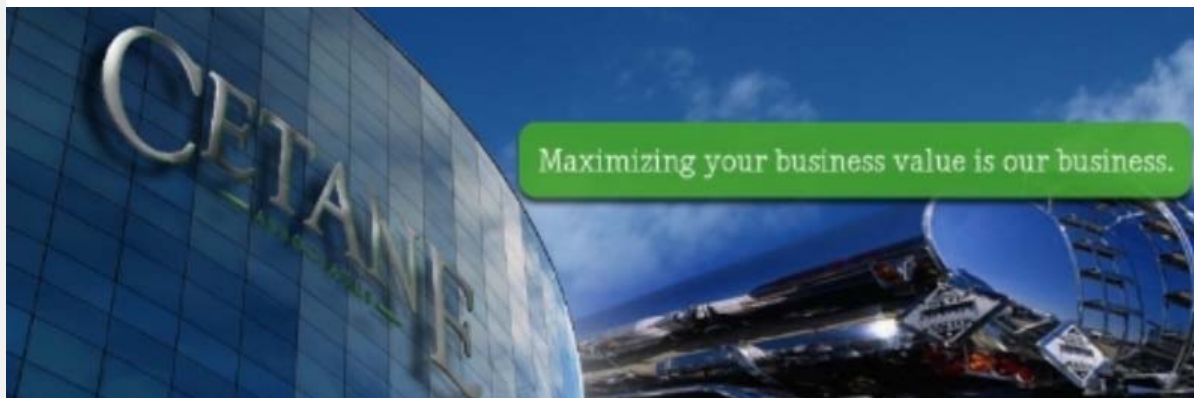


CETANE

— ASSOCIATES —



M&A Advisors • Business Valuations • Strategic Planning

20% Plus Decline In Petroleum Prices – The Good and the Bad.

by Sean Cota

What are you doing?

If you are a retail heating fuel marketer, you have been given a great opportunity that only comes around a couple of times a decade. Here are some thoughts on how you can handle the plusses and minuses of this rare event. It's my job to recommend the best strategies for success to the industry I advise, and grew up in. So here's my perspective.

What's happened since the price peak in Mid June 2014

Since mid June, heating oil price have declined significantly. NYMEX heating oil is down over 50¢ or 19%. NYMEX RBOB is down over 60¢ or 23%. Propane Gas is down 17¢ or 15%. That is significant. Use it to your success and not to your failure.

The Plusses of this decline:

More competitive to natural gas

This decline has helped to close the gap in heating fuels to the natural gas utilities. With the current differential it **now takes a much longer time to get a payback on installing a natural gas heating system**. This will slow the success of these aggressive utilities marketing for your customers to switch fuels.

Customers will buy more fuel

With declining prices, consumers will typically purchase more, as they elect to keep their thermostats higher with energy they can better afford. Customers who are **wood burners will reconsider all the work it takes to burn wood as compared to the ease of heating oil**.

Accounts receivable reduced

Heating consumers spend less for the fuel, so the carrying costs of the accounts receivable is reduced. Customers pay quicker, causing quicker turns on cash increasing cash flow. All of this makes your

relationship with you bank and suppliers a lot easier.

Margin expansion is necessary

To quote the classic economic term of “prices are sticky in the downward direction.” There are many reasons to decrease your prices slowly. Here are several very real reasons to use with your customers, the press, and politicians. They are true. Use them.

The inventory you buy today for sales in the future is more expensive in a declining (Backwarddated) market. This make is harder to recover your costs. Customers are more reluctant to pay quickly for prices purchased at a higher rate than the current rate. This increases costs.

Prices are volatile. Supply and demand has not really changed since the price decline. They have declined for political reasons. (I will have another newsletter on this topic.) They will just as likely and quickly change direction. Rapidly changing of prices in retail heating fuels causes customers to try to time their deliveries, interrupting automatic delivery systems, and reducing delivery efficiency and increasing costs. Stable prices are better for reducing delivery cost.

You will not want to give the following explanation, but it is true: The most important reason is that the industry’s real margin has declined significantly in the last decade. Most of the world, and the banking industry in particular, all think that petroleum is marked up on a percentage basis. They believe that if prices increase, your profits increase. For those in the retail industry, you know that that’s not the retail energy business. Percentage markups have decreased. Historically, in 2004 when the industry had normal weather, normal demand, normal supply, its percentage markup was over 25%. When NYMEX was trading in 2008, margins were significantly less than that, and when the market collapsed, many margins were negative.

The Minuses of declining prices

Retail Heating Fuels Price plans.

Many retailers have sold pricing programs more for cash flow than as a hedge with consumers. The option costs of providing “at the money” price protection has been expensive on a cents per gallon basis compare with a decade ago. Consequently, marketers who have relied on these programs for cash flow, opted for fixed price programs instead of option capped programs to reduce the cost. As Murphy’s Law would have it, its possible that the peak in prices occurred this summer at the same time that many of these programs were rolled out to consumers. Generally, fixed price programs from wholesalers to retailers are “take or pay” contracts. Many states in the heating fuel market do not allow for the same concept to be translated downstream to consumers.

Without downside protection, consumers often elect to short gallons of the pricing obligation that they signed up for. This increases the higher the difference is between their price and the street price. These consumers attempt a number of tactics to get out of their obligations. They include: renegotiation of the deal, changing their accounts to will-call delivery, pay for COD spot market deliveries to short their contract obligations, and burn alternative fuels. All of these undermine the retail profitability of the companies offering these programs. These are just more reasons to allow for a slow decline in retail prices.

My Real Life Story of Success

A most profitable year during the chaos in the winter of 2008-2009.

One of the best years in my family’s business was the winter of 2008-2009 when the market collapsed as a result of the financial crisis. We were stuck in the dilemma of how to try to deal with the chaos in the market place.

Hedges are not speculation

Our hedges were just that, hedges. For these programs, if the market went down, our costs went down, and that was passed on to the customers under these programs. Not only where the customers costs capped, but so where our margins on these accounts.

Success because others didn’t hedge

The profits came not from our hedges, but from our competitor’s lack of hedges. There were many calls form customers of other marketers who wanted to bail on their contracts with our competitors and switch to us. We realized that we, as an added value marketer, were going to be lower in price for only the collapse period. Those hyper price conscious shoppers were only going to stick with us for a short period and then go back to their normal fuel retailer. Our prices declined amongst the chaos, but not as quickly as the collapse. While many retailers lost a decade of earning in a single year, we had our best years in decades. We managed the chaos of the decline in a positive way for our market. We kept our customers

happy with the pricing declines. We slowly grew our market because of our reputation in how we executed our program. And most importantly, after several very challenging years in this competitive energy business, we had a great year.

What should you do?

Following the retail market slowly down.

I've given you the arguments. Heed them.

Heating fuel customers are stickier than you think.

They really are. Successful retail heating energy businesses provide lots of added value outside of the fuel. Just remember, when the phone rings, answer it, and be empathetic.

Keep an eye on fixed price customers.

Consumers will try to cancel their contracts. Don't let them. Keep their tanks full, so they can't sneak in a COD fly by night delivery.

Avoid will-call deliveries for onetime customers.

A one time sale to a consumer to break their contract with another company, will not get you the customers you want to support your business. And worse, if you know that your helping to break a contract with another company, you are an accomplice.

Make hay when the sun shines, as it will not always be shining

We serve our customers around the clock, every day of the year. You will be there for them on Christmas Eve when a utility won't even answer the phone. Prices can change back higher quicker than they declined. Be smart. Make some money. As a close friend told me in times of chaos, "if you're broken down on the side of the road, you can't help anyone." It's been too tight for too long. You need to build some earning reserves for unknowns that surely lie ahead. Profits are hard enough to make in this competitive business. Don't miss this opportunity.

We can help. Here are some of the tools.

SeanCota.com Consulting

- *Business Diversification Planning*

Small businesses often have been built in a geography where they have made a reputation of quality and value for their local community. As your business succeeds, you need to diversify. How do you maintain your growth and continued success, maximizing on your locale, reputation, and skills in new products and services are key. We will help you to build for future success.

- *Acquisition Implementation*

You've successfully acquired a new company. You've paid value for a business you want to grow as part of your expanding business. The transition is key. Your new business' employees, and customers will judge you on the transition. Do it well. This will make the difference between success and failure. I can help.

- *Propane Gas Business Startup and Implementation*

In retail energy diversification, propane gas is an excellent addition as part of a long-term business investment. It is a capital-intensive business whose differences with other retail energy services are significant. Implemented well, it will dramatically increase the value of your company. Implemented poorly, and it may be the diversification that causes your business to fail. Do it right.

- *Professional Testimony*

Sometimes you need an expert with legal disputes who is knowledgeable in the industry, and can present to a Judge or Jury well. We can help.

Cetane Associates

- *Selling Your Business*

One of the most important decisions an owner will make is the decision to sell their business. The sale of a business is often complicated by variables such as timing, tax implications, partnerships and market conditions to name a few. What we bring to the table is the ability to help guide you to a decision you feel good about in the long term. We have navigated the process many times and we guarantee 100% trust and confidence in the advice we provide. We have built a network of qualified buyers and we know how to keep the transaction confidential. We also provide our clients with a foolproof valuation and our unique marketing strategy delivers higher values. Most importantly we get the deal done. Please contact us for a confidential discussion to learn additional details about our process.

- *Buying a business*

The purchase of a business is an exciting time for an owner and their company. Growth is good! But remember, buyer beware. Exploring the purchase of a business has many facets. How do I find the right business? How do I value the business knowing there are most likely other suitors? How much cash will be needed to complete the purchase? Will my bank support the purchase with a loan? What happens to my working capital needs? How do I protect myself from legal pitfalls?

The Cetane buyers program is tailored to get you through the process and helps you make the right decision, even if the decision is not to buy. The program can take you from soup to nuts or help with a single aspect of the purchase. We will work with you to show you how to find a company. We will then work with you to value the assets, negotiate an offer, perform due diligence, close the transaction and transition the business successfully.

- *Business Valuations*

Business valuations are required in many instances such as estate planning, acquisition funding, bankruptcies, litigation, divorce, and for other financial reasons. Our detailed valuations examine the entire business and have been used by many owners as budgeting and process improvement tools. Our "Valuation Plus" program will also supply benchmark data to compare your results to other businesses in your industry.

Sean Cota, Managing Director



Sean Cota began in the home energy business working for and eventually becoming a co-owner of his family business Cota & Cota in Bellows Falls, Vermont. Sean Cota is a third generation energy marketer and his passion of the industry soon led him toward being an advocate for other home energy marketers throughout the industry. Sean has held several major positions throughout the energy industry including chairman of the Petroleum Marketers Association of America (PMAA) and the President of the New England Fuel Institute (NEFI). Mr. Cota is well known for his work representing the industry for commodity trading transparency and reform where he has testified before the United States Senate and the U.S. House of Representatives.

Since divesting his retail energy business, Mr. Cota has been advising clients on a multitude of related business activities including strategic planning, diversification project planning, market analysis and M&A advisory. Mr. Cota is a hands on expert on retail fuel operations and transition planning.

Contact Sean at sean.cota@seancota.com, or sean.cota@cetane.net

Copyright © 2014 Cetane Associates, All rights reserved.

[unsubscribe from this list](#) [update subscription preferences](#)

MailChimp