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A special focus

Hammermill

Tune Up Your Service Department: Part 2

This is part two of a three part series on how to increase profits and customer satisfaction for service departments

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LAST MONTH WE DISCUSSED HOW TO IMPROVE OPERATIONAL performance and thus greater customer satisfaction. The topics covered were:

- Callback reduction
- Service call response time—exceeding expectations
- Faster and more accurate estimating

This month we will discuss how to get paid well for your great service.

INCREASE YOUR SERVICE MARGINS

Full service customers have chosen you for your service. Price is not their only consideration. They do not buy your fuel because it's the best fuel. Your customers buy from you because they believe you are there for them—more so than the competition. There are other companies that your customers won't choose because they are afraid to give up your service.

If you are taking care of the customer, you deserve to get paid well for it. And you can't afford not to. Yes, you must be mindful of the market, but if your competitor is offering an unrealistic price, don't follow them out of business.

You must know your costs. I'm seeing typical labor costs including overhead on the order of \$85 per hour. Included in that is about \$6.50 per hour toward fuel costs or \$11 per hour toward overall vehicle costs.

Once you know your overhead, add an appropriate profit margin, and then compare your new labor rate with the competition. If you are dramatically higher, check your costs and seek ways to be more efficient, without compromising on service quality. If you are much lower than your competition, consider raising your rates, assuming your costs are accurate. Don't be afraid to be a few dollars higher than the competition. Labor rates are not shopped closely and customers will pay more per hour if you have their confidence.

Flat rates are a great way to increase your labor rate for repairs; they also decrease invoice disputes. Flat rates make it harder for customers to dissect your pricing so you can charge an appropriate labor rate. Flat rates also allow you to quote repair costs in advance, so you get fewer disputes.

Don't get hung up on individual job profitability. A lot of businesses are afraid to lose money on a single flat rate job. It is O.K. if that happens, as long as you are making profit on average. Let's be realistic—you don't profit on all of your time and material jobs either. A job that is destined to run long is usually apparent in advance and you can always quote that with a custom price.

The bottom line is that flat rates are one of the most effective methods of increasing profits for a service department, with limited customer push back.

SELL MORE PROFITABLE SERVICE CONTRACTS

The first step to profitable service contracts is to measure how much they are costing (or earning) you per gallon. Many fuel companies use service contracts to attract fuel customers. These businesses expect to lose money on the contracts, which they hope to recapture through fuel sales. If that's the case, you need to know your costs so you can set your fuel prices accordingly... if the market will bear those costs.

If you are in the camp that expects to lose money on your contract for the sake of fuel sales, it behooves you to measure contract profitability. I've seen companies that were losing 40 plus cents per gallon on their service contract. Do you think they recaptured that loss in their fuel margin?

Don't assume that your competition knows what it is doing. Most companies set their contract coverage based on what the competition does. They also set their contract pricing the same way. But if everyone is going by what the other company does and no one is figuring things out, it's like the inmates are running the asylum. Someone has to do their homework, so it may as well be you.

In the end, your contract pricing should reflect both your costs and the competitive landscape—but within reason. You wouldn't knowingly lose more money on a contract than can be recaptured in the fuel price. You wouldn't knowingly go bankrupt. If pricing at market rates forces you to lose money, you must either find a way to be profitable or get out of the business and stop bleeding. But my money's on you. You'll find a way to be profitable if you look hard enough.

The second step to selling more profitable service contracts is to develop terms that protect the company while still remaining attractive to the customer. Here are a few tips:

- Make it your business to know what your competition is offering.
- Avoid competing directly. If your competition has two or three levels of coverage, position your contracts in between those levels. Then it's harder for the customer to compare price. But make sure your sales force understands the differences between your contracts and your competitors.
- Don't cover obsolete or unreliable parts. Why cover a stack control when it's easy to convert to a cad cell relay? A cad cell

relay is more reliable and less expensive than a stack control.

- Don't cover ongoing problems. If you change an ignitor, that problem is solved, but if you have to clear sludge from a fuel line, you will probably have to do it again soon. Address the sludge issue. This serves both you and your customer.
- Give the customer an incentive to make corrections. If you feel you must cover ongoing problems, set a limit or charge a deductible. The customer must have some skin in the game.
- Consider treating your fuel against sludge. A fuel treatment program could pay itself off in spades for contracts that cover fuel filters and fuel lines. The payoff depends on how effective the treatment is, the cost per gallon, and how many contracts you sell.

GET PAID FASTER

Faster invoicing not only results in faster payments, but also in fewer disputes. A customer's gratitude after a service call is short lived. Invoice the customer while she is still grateful for your fine service, and she will not dispute the bill. If you wait a month, she will forget how quickly you arrived and how long you were there. It's human nature.

Here are some tips to get paid faster:

- Flat rate billing—simplifies the billing process, results in faster invoicing and fewer disputes.
- Have the technician's bill from the field—speeds the invoicing process, reduces invoicing errors (part selection and work performed), may enable immediate payment. Support this with proper training on contract coverage and service billing.
- Have a comprehensive and organized parts list—Your parts list should have the items you sell for most of your jobs. It should be organized well enough to facilitate easy look up, whether from a computer or from a printed list. The organization of the printed list is critical if your technicians bill from the field and must work off a printed list. For computer parts, searching it is important to understand how the software searches for parts—by keyword, by part number, etc. and assign categories as needed.

This concludes part 2 of our article. Part 3 will focus on how to measure your performance to ensure your service department is continuously improving. | F O N

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