

Propane Resources Letter

L e a d e r s h i p

A monthly resource of management and leadership ideas for the propane industry.

July 15, 2006

Issue 174

DEAR PROPANE DECISION MAKER:

IN THE GOOD 'OLE SUMMERTIME: We have developed a business plan for a developing segment of the propane industry. The 20# cylinder business continues to grow with the gas grills popularity as well as the patio heaters, fire-pits and mosquito magnets. Outdoor living has a strong growth trend as more Americans are utilizing the back yard.

A few companies across the US are offering home delivery of cylinders. This just seems like a perfect opportunity for a propane retailer that serves any metro area. In most cases there is very little capital required and the manpower is available (unless you really are going to paint tanks this year). Bringing in cash during the summer months has always been a challenge for propane marketers. Consumers are willing to pay for service and getting a gas cylinder delivered to their house certainly eliminates a task that most hate to do, go stand in line at a cylinder exchange cabinet and haul a 40# hunk of steel home in their trunk.

Blue Rhino developed the cylinder exchange business and I for one said, "that'll never work!" Guess what! It will take some marketing to let consumers in your area know about the service but the investment will be well worth it, both in financial returns and touching a whole new customer base.

BUILDER STUDY: PERC has recently released a builder market study conducted across the U.S. They surveyed builders, engineers and others in the building industry about when, why and how often they install propane in new construction.

In 23 pages of study results, one chain of facts stood out. Builders rated their propane dealer as their number one source of information on propane as an energy source. However, only 36 percent of builders surveyed said a propane dealer had contacted them.

If you're thinking you would sure like to get in on some new construction installations, but you're just not sure how to do it – the facts appear to be straightforward. Call the builders. Make yourself known, and do some sales legwork.

DOT IS HARD AT WORK: We've heard that more and more retailers are getting the opportunity to be audited by DOT. With the increased efforts regarding security, companies transporting hazmat (particularly propane) are a top priority for safety reviews.

If your bobtails or transports have been stopped for a roadside inspection and any violations were noted, you moved to the top of the audit list. Most everyone is aware of the needed driver files, equipment maintenance files and driver drug testing procedures. The Hazmat Security

Propane Resources provides a wide range of consulting and advisory services to help retail propane marketers realize their growth and economic goals. Services include: educational events, marketing plans, customer communication, valuations and business sale assistance.

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Send comments to:
Monthly Letter, Propane Resources
6950 Squibb Road, Suite 306, Mission, KS 66201
Tel (913) 262-1545 • Fax (913) 262-1003
e-mail: prinfo@propaneresources.com

Plan seems to be a focus by the auditors and your plan will probably not be good enough. The requirements are vague and open to the auditor's interpretation.

If you are using one of the many "templates" available from JJ Keller or your state association, be sure to change it to be very specific as it applies to your physical operation and personnel.

Don't panic if you are written up for violations (unless you have ignored everything you have heard about safety and DOT for the last 20 years). Generally you will be given a period of time (3 to 6 months) to fix your deficiencies. The result you are looking for is a satisfactory safety rating. The other two options are conditional or unsatisfactory. Obviously, an unsatisfactory rating puts you out of business. It's like studying for a test. A little work now will make the day of the test a lot less stressful.

ETHICS PLAYS A ROLE IN BUSINESS: As business owners, you are responsible for increasing your revenues, serving your customers AND running your business with integrity. It is easy to get caught up in dollar signs and statistics, but do you ever really stop and consider the role of ethics in your business decisions?

When it comes to business ethics, not only do you need to consider the way you run your business, but also the way your customers perceive your business being run. Taking care of the customer and truly offering them the best solution for their situation will work out in the long run. One reason being that your customers will recognize your honest treatment, respect that and come back.

In a 2005 Ethics Global Study held at a Business Ethics Forum, the number one listed "factor most likely to cause people to compromise ethical standards" was pressure to meet unrealistic business objectives/deadlines. So when you set a goal for your sales staff to set 500 tanks for the winter, are your expectations practical?

If your only purpose is to satisfy sales objectives, a short-term goal, the instant gratification might come back to bite you. Regardless of the benefit to the bottom line, ignoring your customers' long-term needs could potentially hurt your relationship with them. Most likely they will lose trust in you.

Not only could you lose a loyal, or new, customer, but the word will spread. Especially if you knew a problem existed. When the customer finds out later, you can count on hurting your reputation. People talk about their bad experiences with companies more than they do good experiences.

Obviously increasing gross margin is how your business keeps from going under. But you can make money and operate an ethical business while feeling good about how you serve your customers. Don't let fluctuating gas prices or competing retailers push your ethical limits.

Everybody has met the sleazy car salesman who could care less if your new set of wheels can leave the parking lot, as long as you sign your name on the dotted line. The best way to avoid having unethical employees is to lead by example. If your business hasn't already created a code of ethics, make one. Outlining what you expect from your business will make a huge difference in your employee morale. How you treat your customers is contagious to your staff, and the profit will come in time.

TOP 50 REVIEW — 2005: LP/Gas' Top 50 for 2005 is complete and some numbers have changed drastically. With Ferrell's renaissance plan in full effect, they have reduced their number of outlets (or service centers as they call them) from 650 to 125. This has increased the gallons per outlet from 1.35 million to almost 1.7 million (from 1.4 to 1.9 million for multi-states alone). Most other averages are up a bit as well. While it was a warmer winter than the previous year, gallons per customer increased by 30 gallons on average.

The Top 50 benchmarks are still driven by the Southeast, Midwest and Northeast retailers, who account for over 70% of the total. The number of acquisitions by the Top 50 decreased from 80 (387 million gallons) in 2004 to 46 (123 million gallons) in 2005. The multi-states and one large regional were not as active this past year, possibly because they looked to integrate their acquisitions made over the past few years, as well as looking at other income streams outside of retail propane. The big acquisition in 2005 was Dowdle Butane (nearly 70 million gallons) in the Southeast being acquired by Inergy.

We have gotten many calls lately about benchmarks on financials, as well as some operational data. Other than MLP information (financials and operating) and the Top 50 (operating), there is little information publicly available – and the Top 50 does not include the actual Top 50 retailers by size, only the ones who complete the information. We have tossed around the idea of completing research for a nationwide survey, but want to know if companies are interested in the information, and willing to pay for it. Call us if you are interested.

Top 50 Review — 2005

Source: LP/GAS Magazine Feb. 2006

| DESCRIPTION | MULTI-STATE | MIDWEST | OHIO VALLEY | WEST | NORTHEAST | SOUTHEAST | TOTAL AVG. |
|-----------------------------------|-------------|---------|-------------|-----------|-----------|-----------|------------|
| Retail Gallons per Outlet | 1,921,000 | 982,000 | 2,620,000 | 1,593,000 | 1,551,000 | 1,043,000 | 1,691,000 |
| Retail Gallons per Customer | 734 | 844 | 1,101 | 511 | 460 | 568 | 712 |
| Retail Gallons per Employee | 176,000 | 221,000 | 346,000 | 151,000 | 101,000 | 146,000 | 170,000 |
| Retail Gallons per Bobtail | 414,000 | 390,000 | 705,000 | 468,000 | 452,000 | 334,000 | 407,000 |
| Customers per Outlet | 2,617 | 1,164 | 2,379 | 3,119 | 3,849 | 1,875 | 2,414 |
| Customers per Bobtail | 565 | 462 | 641 | 916 | 1,024 | 600 | 577 |
| Employees per Bobtail | 2.4 | 1.8 | 2.0 | 3.1 | 4.7 | 2.3 | 2.4 |
| % of Bulk Storage to Gallons Sold | N/A | 7% | 3% | 6% | 4% | 8% | 6% |

| | | | | | | | |
|----------------------|-----|-----|----|----|-----|-----|------|
| % of Total Responses | 13% | 21% | 6% | 9% | 17% | 34% | 100% |
| # of Total Responses | 6 | 10 | 3 | 4 | 8 | 16 | 47 |

(,000)

MARKETING SERIES: When it comes to advertising and marketing, do you spray and pray? Or do you have a plan in place for tactics that really work?

Your marketing efforts can fail if they are missing one of just three important elements: The right message, the right audience or the correct use of media. Often the third element is the hardest to master – especially if you have a favorite media salesperson.

While business owners and advertising professionals all have media that they favor, the truth is that any medium should work if you use it correctly. And the first step in using media correctly is to have the first two elements covered – make sure you are sending the right message to the right target audience before you make any media decisions.

Direct mail: Direct mail is often a successful tool for propane marketers because it doesn't just blanket an entire geographic area as radio, TV or newspaper would.

The most important factor in direct mail success is your list! You should be aware that you can target your mailing lists by income, home ownership, zip code, mileage radius, business types or any combination of factors that help you get the prospects you want.

The next three important elements in a direct mailer are: the offer, the text or wording and then the graphics. (Are you noticing a pattern here? The right offer or message in front of the right audience, again)

Radio: Make sure any station you buy targets the audience you are looking for. Any reputable media outlet should be able to give you an idea of what their audience looks like in terms of sex, income and geographic area. If they're not the right prospects, don't buy it. Ever. Even if it sounds really cheap.

If you do decide to buy it, you must buy a lot, and buy it in prime time. You need to get to something called a "3 frequency" every two weeks. It means that your target audience will hear your message often enough to absorb it.

Don't work too hard at this – your media salespeople can and should bring you these numbers. It's part of their job.

**Call or e-mail anytime.
 We like hearing from you.**

Propane Resources

*"Words are words.
 The best teachers are those who
 SET AN EXAMPLE."*

— From the book
Cheatnotes on Life

Contributors to this month's Letter:

**Sara Bouska, Denny Carroll, Daniel Dixon, Mark Bailey, Tamera Kovacs and Hannah Voegele.
 Contact the Contributors by E-mail — prinfo@propaneresources.com or Call Toll-Free — 888-739-6732**

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