

# From costs to prices – a puzzling road in the energy industry (Part 2)

By João on April 27, 2015 at 8:00 am

Posted In: Ch 14 - Pricing & Customer Profitability, Ch 19 - Cost Management, Value Creation And Sustainable Development

Buy our book [here](#).



The [previous post](#) finished with a comment from our friend Prof. Hanno Roberts on the possible answers to why airfares and some bills have not been reduced, significantly or at all, in spite of the plunge in oil prices. In his unique way, he wrote “answers fluctuate between lame, hypocritical, and “go away!””.

We went on discussing the issue by email, and with his permission I’m copying his follow-up detailed explanation of his rationale. Definitely worth sharing.

“As I see this issue, the hedging argument is only part of it, addressing the risk component. All instruments are focused on down-side risk, “financial bad news”, there is little in the way of instruments to handle the upside, “financial good news”. That explains why airlines and energy utilities use the windfall gain to strengthen their balance sheet, and to shore up their cost structure. A reduced OPEX leads to an increased margin (Gross Operating Income). The latter’s movements, certainly when viewed across periods, will signal the need for cost structure adjustments and improvement; meaning, how to adjust the cost structure thus guaranteeing a sustained strong margin? This would be the lame part of my FB posting: take care of yourself first.

One can argue a positive take on this by saying that these two actions (of flowing windfalls into the financial position instead of to the costumers) will eventually benefit the customers in terms of better offerings and of increased competition between stronger airlines and utilities. Typically, an economist would argue this: i.e., consider a longer time frame.

The negative take on it is that it shows airlines and utilities do not recognize customers as stakeholders, whatever they say in their statements. This is the hypocritical part of my FB post. Hence, it would imply a representation of customers (customer organisations) on the boards of airlines and utilities, i.e., a corporate governance that literally provides a stake and not just politically correct phrasing. A management scholar would typically argue for this; i.e., imbalanced management. And, as you might imagine, this would be the “go away!” part of the FB posting – no meddlers on my Boards!

Sorry, I got carried away. You do whatever you want with it, including ignoring it.

Cheers, Hanno”

Thanks, Hanno!