

by Bill Sendelback

*Jon Strimling and PelletSales.Com are bringing sophisticated logistical planning to the task of pellet fuel distribution and, in doing so, ensuring fuel availability for many consumers.*



# Pellets by Net

**T**he lack of assurance in the availability of pellet fuel over the past few years has been a major concern of the industry, and of consumers. It has angered owners of pellet stoves and hindered purchase of an appliance by many others. Although pellet fuel manufacturers strive to ensure there are enough pellets at the right time and in the right places, a unique company, PelletSales.Com, thinks it has some of the answers to keep pellet fuel flowing to both dealers and consumers.

Jon Strimling, president of American Biomass Corporation, talked with *Hearth & Home* about the problems of pellet availability and solutions offered by his Manchester, New Hampshire-based company.

**Explain to us the mission of PelletSales.Com.**

**Strimling:** “PelletSales.Com is focused on making it easy for consumers and retailers to get convenient, affordable access to premium wood pellet fuels and other forms of biomass such as corn and eventually grasses.”

**When did you establish PelletSales. Com and why?**

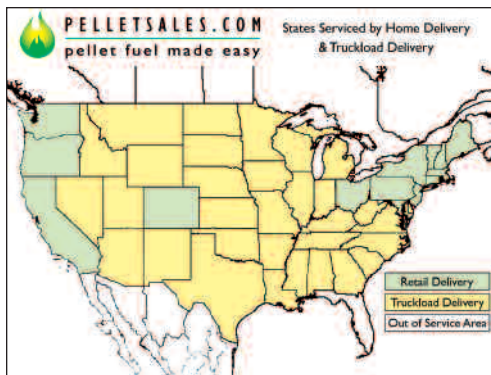
**Strimling:** “I was working for New England Wood Pellet, and we spent a lot of time trying to streamline the manufacturing process, trying to reduce wasted material, wasted electricity and wasted labor. As I looked at what hap-

pened down through distribution, not only in the wood pellet segment, but industry-wide, I saw significant issues with distribution. I went to the Pellet Fuels Institute (PFI) conference three years ago and heard the tension between manufacturers and dealers.

“Manufacturers wanted dealers to make a commitment so they could turn on their plants and get production ramped up, and dealers felt that manufacturers were not able to supply them properly. But the reality was that the consumer wasn’t in the picture, and the only one who could really make a com-

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*At company headquarters in Manchester, New Hampshire.*



mitment to take delivery of the product was the consumer. So I saw the opportunity to work with the dealers and fuel manufacturers to align consumer demand with manufacturing production to try to smooth out some of the bumps in the wide demand curve.”

**On your Web site, you have a map showing some states in light green and some states in yellow. Apparently it defines your service area. Could you explain?**

**Strimling:** “The yellow areas – the Midwest, Southwest, Rocky Mountains and Southeast – represent areas where we ship full truckloads of product. The green areas – the West Coast, Mid-Atlantic, Northeast and Michigan – are areas in which we will provide residential delivery of usually one to two tons of pellets. Economically, we can’t bring a ton of fuel to every home in the country at this point. But on the East Coast from Baltimore to Maine, and woodland areas in New York and Pennsylvania, spotty areas in the Midwest and even areas of the West Coast, now we can provide residential delivery.”

**How do you work with the pellet mills?**

**Strimling:** “We work with somewhere between 25 and 30 different pellet mills all over the U.S. and Canada. We purchase and physically take delivery of full truckloads of product and coordinate the stream of orders. To the pellet manufacturer, we look just like any other wholesale customer. In some cases, we will move fuel directly to a consumer’s door, and in other cases we will move it to one of our distribution facilities and then on to a customer. In some cases we will move it out to our affiliated retailers, our stove retailers, and then they will move it on to the customer.”

**How many distribution centers do you have?**

**Strimling:** “We work with about 25 different distribution facilities, most of which are third-party logistics providers, and about 50 freight carriers. When I started the business, what I saw was waste in distribution of pellet fuel. I remember seeing pellets at a Home Depot in New Hampshire that came from a manufacturer in Oregon and had gone through Canada. It was just crazy in the amount of transit cost that was included in the pricing of the pellet fuel.

“I set out to streamline the physical flow of product and find the lowest cost flow path between the manufacturer and the end consumer, and then to streamline the data flow, the transaction process, using the Internet.”

**Where have you had the most success?**

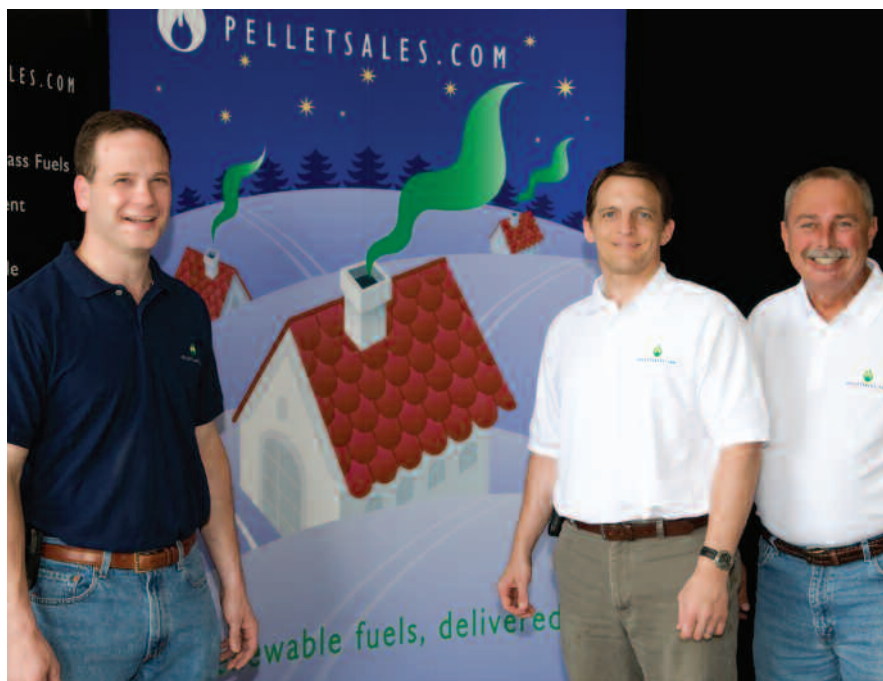
**Strimling:** “We started in the East and the Northeast, so people have been familiar with us over a longer period in the Northeast than they have, say, in the Pacific Northwest. This year in particular we have seen a cascade of dealers in the East who want to work with us. And in the Midwest and West, it is a little bit of a slower process, but we still have affiliates on the West

Coast, in the Pacific Northwest, that are coming to us.”

**Can you be price competitive on a landed basis to a dealer or consumer in Oregon, for example, versus what a local or regional fuel manufacturer will charge?**

**Strimling:** “If you’re Home Depot and you want to buy 50 truckloads to be shipped to a particular distribution center, we’re not the right solution for that problem. When there were periods of shortages, such as in California in January, 2007, none of the existing businesses had figured out the real logistics to get product from the middle of the country out to California.

“We were the first to figure it out, and we started moving product before anybody else. We took advantage of the intermodal back-hauls that allowed us to move that product. We were able to respond quickly and to help the market. Because of our work with more than 50 carriers all over the country, because of our purchasing leverage with those carriers as well as our experience with various modes of transit including truck, rail and intermodal transit, we are often able to provide fuel quicker and cheaper. At times we can actually get product to a dealer cheaper than they can get it from a local manufacturer.”



(L. to R.) Jon Strimling, Mark MacLean, vice president of operations and Michael VanDerHeyden, vice president of distribution.

## How does a dealer get set up and work with you?

**Strimling:** “Some dealers love to sell pellets from their stores, and some dealers want to deliver the pellets to consumers. But there is a whole host of dealers who, historically, have offered pellets only as a chore, as something they had to do in order to sell pellet stoves. We offer dealers an option for out-sourcing their pellet supply.

“Some have never sold pellet stoves because they didn’t want to carry pellets and deal with moving pellets, or didn’t have the facilities to store and handle them. Instead of their having to buy trucks and storage, we do that for them. We can provide pellets to their customers, and that gives them the confidence to sell a stove and know that we can get pellets to their end consumers.”

**Some consumers go to a dealer to buy only one bag or maybe five bags. That doesn’t sound as if it would be practical for the majority of consumers to do that. It sounds as if it would be more practical for them to buy from you in larger quantities, but then that leaves the dealer to figure out some way to be able to offer the smaller quantities.**

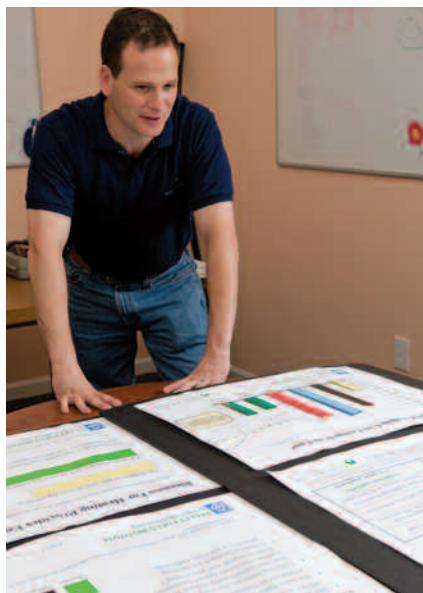
**Strimling:** “Absolutely. We are not the solution for one bag or two bags or five bags. If you visit our Web site and look for less than a ton of product, we actually refer consumers to dealers. They can provide that service to them. That is one of the services we provide dealers, to refer consumers to dealers for bag sales. We also refer consumers to dealers for stove sales and service.”

**You really deal more in larger quantities and then you have a network of dealers who have pellets on hand to whom you refer a consumer if they want small quantities. How does a dealer get set up with you?**

**Strimling:** “We have a process of qualifying dealers. We make sure that we’re in a position to serve them and their customers before we take them on. We try to be very clear about what we offer and what we don’t offer, the services we provide and the services we don’t provide. More often than not they want to work with us, and we try to find a way to make it work.”

## How do you handle payment for consumer purchases?

**Strimling:** “We make deliveries direct to their consumers. The consumers pay us, we handle all the billing, all the receivables, all the transactions, and then we actually reimburse that stove dealer with a referral fee for the customers they send our way. Then there are cases where we also will supply that dealer on a bulk wholesale basis for his retail sales to his consumers.”



Jon Strimling.

**I understand that you recently received a \$4 million infusion of operating cash through American Biomass Corporation. Is that an umbrella company for PelletSales.Com?**

**Strimling:** “Yes, that’s right. We just announced that .406 Vouchers, a venture capitalist firm, has led a \$4 million financing of American Biomass Corporation. It is focused on investing in market-innovative growth technology and service companies.”

**On you Web site, you mention your patent-pending technology. That appears to be the software involved in how you’re keeping track of fuel, availability, orders and shipments.**

**Strimling:** “We’ve developed a quoting system that is geographically dependent. A consumer looking for pellets wants to know what is available to him

at his location. By punching in his zip code, we’re able to tailor a product offering to him. We will look at any number of potential suppliers; we will price delivery to that consumer’s home, including bulk delivery and what other delivery options may be available in that area. We will cost it out in real time and provide him that data.”

## What other services do you offer other than providing the pellets?

**Strimling:** “The core of our business is fuel supply, but we also refer consumers to affiliated stove shops for additional stove purchases. Consumers do come to us looking to buy a stove, but we’re not in the business of selling stoves. We refer those out to our affiliates. The same thing with service calls. If there are service issues where a customer calls in and thinks they may have an issue with pellets, or maybe an issue with a stove, we will refer that to the affiliate dealers.”

**Assume you’re now going into the fuel sales season. What would you have as an average inventory of pellets throughout your system?**

**Strimling:** “That will vary seasonally, of course. Obviously it is a process of supply and demand and what we think is appropriate. What we try to do, to the best of our ability, is ensure that our affiliates and our customers have a stable, reliable fuel supply.”

**How do you figure out how much fuel you should have in each of your various 25 distribution facilities?**

**Strimling:** “We have very sophisticated demand forecasting methods. We have been gathering data for a couple of years now, looking at the trends, looking at them geographically. We can appropriately move fuel into the right distribution centers. We cannot always predict where the market is going, but we can be quite responsive and, frankly, our predictions have become a lot better over the last few of years.”

**Pellet stove and pellet fuel sales are going through the roof this year, particularly in the Northeast. A lot of dealers are very concerned about possible pellet fuel shortages. How are you gearing up to mitigate any potential shortages?**



*Pelletsales.com in Manchester, New Hampshire.*

**Strimling:** “We share the same concern. I lived through the aftermath of Hurricane Katrina. I saw the huge spike in demand. I saw shortages of pellets. I saw a run-up in prices and then, of course, the next year we saw stove sales tank. Nobody wants to see that happen again.

“We’re not a fuel manufacturer; we cannot create pellets. But there is actually a fair amount that we can do to react to demand. We are already moving tens of thousands of tons into the Northeast from Canada. We are also moving tens of thousands of tons up into the Northeast from other parts of the U.S., including the South and the Midwest. And we’re exploring with a number of fuel manufacturers the turning on of their manufacturing capacity in distant areas.”

**Over the years, pellet fuel pricing has been relatively stable, but there has been some concerns about price gouging. What’s your prediction regarding pellet fuel pricing this year?**

**Strimling:** “I can tell you the price is going to rise. I hope that it is not because of gouging. We’re going to do our best to conduct ourselves in a responsible manner. We hope that the rest of the industry will follow suit.

“There are some real fundamental drivers that are increasing the cost of pellets. First of all, there’s the price of transportation. Most of the cost of pellets is in transporting the wood to the

**Pellets are still going to be more economical than oil, and the spread between them is opening.**

mill and then transporting the pellet out to the consumer.

“Second, the quantity of pellets produced in the Northeast has risen, however the quantity of pellets consumed in the Northeast has risen even faster. That means we’re bringing pellets in from more distant sources, which increases the transportation costs and ultimately the price in the market.

“All those factors together are going to increase pricing pressure in the market. Pellets are still going to be more economical than oil, and the spread between them is opening. The savings consumers are realizing today is greater, even though the price of pellets has risen.”

**Do you see any movement toward bulk delivery to the consumer or is it mostly talk?**

**Strimling:** “There is absolutely movement toward that end. We are seeing some requests for that service, and we are moving forward to provide that service. What we see is a strong demand for the bulk feed appliances, including both residential and commercial boilers and furnaces. And we are working with affiliated distribution service providers to provide bulk delivery.

“A key part of that is Steve Tate, who was formerly the brand manager for Quadra-Fire and is now with PelletSales.Com, spearheading the efforts for bulk delivery. What he saw at Hearth & Home Technologies and the rest of us see is that, for pellets to grow into what they can be in the future, bulk delivery has to happen.”

**What is happening with other forms of biomass fuel?**

**Strimling:** “We are seeing biomass agricultural products, such as corn and grasses, starting to go forward, and the market is just starting to develop. For the agricultural products, it will initially develop around commercial markets, but then as bulk feed systems and improved handling systems come into play, we see that also moving into residential markets.”

**Finally, how do you see this year shaping up for pellet fuel availability?**

**Strimling:** “We cannot guarantee supplies for every dealer and every consumer in the country. We are doing our best to work with the folks who come to us and have been working with us. If a sudden cascade of customers shows up at our doorstep that are in excess of what we had planned on this year or that we can commit to, it is going to be challenging to try to address everybody’s concerns.

“We encourage people to plan with us on a year-after-year basis and to cooperatively plan forward with us in terms of their requirements. Working with consumers to get those requirements and to get complete commitment from the end consumer is the key, so neither the dealer nor us nor the manufacturer is left hanging out on the line with too much inventory. The end consumer making the commitment is the key, and it is hard to change that fact overnight.” 