Suppliers Finally Respond to Skyrocketing Materials Costs

By Traci Matt and Polly Shea

After a year of absorbing huge hikes in raw materials and shipping costs, leading industry suppliers have implemented price increases and surcharges of up to 75 percent. Most changes went into effect the first week of June with some customers receiving a week's notice and some receiving no notice at all.

WAI led the charge with a letter sent to customers stating the steep upward trend in copper and aluminum prices, as well as increased shipping surcharges, are the culprits. Over the past 12 months the price of copper has risen more than 150 percent and the price of aluminum is up nearly 70 percent.

WAI spokesman Tom Lubrano said that although some price hikes were significant, sixty percent of their product line was not affected by the increases. He said the market still has "volatility" and they are remaining positive.

"There will even be a few decreases coming that we'll pass along to our customers," he said.

Lubrano said to compound matters they have seen a "significant" jump in Chinese labor rates.

"We're seeing from our (Chinese) suppliers fairly significant increases since February," he said. "Due to increased demand for trained labor and more skilled workers in larger urban areas there has been a 14 percent increase in their labor rate."

Troy Cosby, sales director at Romaine Electric Corporation, has posted an open letter on the Romaine Web site explaining the far-reaching economic reasons for the price jump. Cosby is "encouraging" rebuilders to edit his letter and distribute it to customers as they implement their own price increases (see "The Price of Copper and How It Will Affect You," page 3). In addition, they are posting a chart on their Web site that shows the current price of copper.

"Educating our customers will be the quickest way to keep them from becoming upset with us for the price increases we are all forced to implement," said Cosby.

In the letter Cosby explains how prices for copper soared as "demand outstrips supply," hedge and pension funds pour money into profitable non-ferrous commodities, and labor disputes and shortages plague places like Indonesia, Chile and Mexico.

As we went to press, Cosby said there had been a "significant dive" in copper prices.

"Copper futures plummeted in Shanghai on June 13 after funds reduced over concerns that rising world interest rates may affect demand. It was the fourth straight session that the contracts hit their daily loss limits. Due to inflation worries, the central banks of Europe, South Korea, and India raised their interest rates and the world market is betting that the (U.S.) Federal Reserve will follow at the end of the month," he said. "We may be seeing the end of this seemingly endless spike in copper prices, however, it will take a few months for the effect of this reduction to reach us."

According to Cosby, Romaine is looking at prices on "almost a part by part basis in many cases," and will not implement "broad brush" increases.

"We will use velocity factors to help people pay less on faster moving items with more competition, and attempt to make it up with slower velocity items, where there is very little competition, and the rebuilder can most often name his price and get it," he said.

AMSCO customers were also informed on June 1 that their prices would go up on a "part by part basis."

Wendy Green, owner of Colson Auto Electric in Largo, Fla., said she would implement a surcharge of her own by mid-June.

"I computed how much the estimated price increases will affect average starter and alternator rebuilding costs and we'll average those two amounts—weighed to allow for our selling slightly more starters than alternators—and tack that onto every purchase," said Green. "We decided to use a surcharge because we think the prices will eventually drop down, although not all the way down."

Some rebuilders who don't want the confusion of a surcharge are simply adjusting prices on a weekly basis. Others aren't sure yet how to handle it.

Green said the thought of parts on her shelf increasing in value would have been some consolation if her competitors were all other rebuilders, but they aren't.

"I have to consider the price of new aftermarket replacement units and OEM units when setting my prices since my customers can, and do, buy them. If import heavy equipment starters and alternators don't go up in price, I can't raise my prices because my customers will buy the cheapest unit. Yes, the cheap unit won't last, but ask a price-sensitive customer to think about the future and you'll get a raspberry—or worse," she said.

Jim Morton, owner of Peoria Electric in Corvallis, Ore., said the fact he doesn't stock cores or finished units will be to his advantage in this pricey scenario.

"This is where my kind of shop has a huge advantage over the normal rebuilder that has hundreds or thousands of cores and units sitting on the shelf. They are the ones that are really going to feel this price increase unless they adjust their prices to reflect what their stock is worth quickly," he said.

Morton said he does plan to increase pricing of his large stock of ACE bushings 40 percent.

Electrical Rebuilders Association Secretary Bob Thomas, owner of B&H Electric in Orange Park, Fla., said a vital thing rebuilders must be aware of is not to lock in pricing with their customers on long-term agreements.

"This is especially true if anyone were to bid on business where a price might have to cover six months or a year. If not careful, one could easily end up losing money on a big transaction like that," said Thomas. "At times like this, it is very important to base your selling price on your current cost, not what your cost was six months or a year ago. Everyone's prices are going to be affected. He who stays on top of this will come out ahead. Anyone who ignores it will lose out."

Cosby added there may be a silver lining to this apparently dismal economic situation: "Over the past decade, there has been an increasing trend in our marketplace to buy complete new units, rather than parts. Our lower labor cost has propelled us into selling a complete unit to increase our profits per dollars invoiced. I believe the Chinese are learning this due to part pricing increasing by 30 to 50 percent where unit pricing is less than half that. They are steadily losing interest in developing and selling components, and continually increase the minimum quantities we must order.

"I say this cautiously, if this trend continues, they may put those of us who have retained factory and rebuilding efforts in our shops back in business in many marketplaces, as we find we can be profitable again utilizing the American labor force, rebuilding with U.S. manufactured parts."

Good Grief

As if the ridiculous price of copper hasn't affected rebuilders and suppliers enough lately, C.C. Battery, Corpus Christi, Texas saw that things could definitely get worse.

According to owner Kenny Turner, last month they opened up to find they were without any natural gas in the building. After investigating, they discovered that the 40-foot length of copper pipe—which ran 14 feet above the ground outside the building—had been removed with a hacksaw. The gate to the fence surrounding the property had been forced open at the hinges.

Thankfully, the hooligans had sense enough to turn off the gas at the meter.