Time For Rebuilders to Raise Prices

By Nick Staub

The buzz surrounding copper prices continues to be the hot topic of the day. Price changes and surcharges are happening so fast it is hard to keep up. How will the rebuilder deal with this? What do they tell their customers? How will we survive?

Two words—raise prices. The two words the industry has avoided, successfully, like the plague. More than any other industry I have knowledge of, our industry has been all about how we can lower price and capture market share. I can't tell you how many times I have heard a rebuilder tell me their customers won't accept higher prices. Usually they say this without ever even trying.

Reality time, people. There is no getting around it this time. In the 90s the rebuilders were desperately facing the need to raise prices, and they did in a roundabout way. We didn't actually raise prices, but instead China emerged into our market. With China came cheap units and cheap parts. Every year as costs continued to rise, the industry imported more and more, effectively offsetting the rising costs of doing business. So we lowered costs, which has the same effect as raising prices, when you think about it.

However, China has proven exceptionally quick at picking up this whole free economy thing and we will never again see the low prices we did five years ago. There is no other emerging low cost producing country that I am aware of. Certainly not one that is so skilled at reverse engineering.

Raw materials is the catchword of the day, however I think most forget the other issues that continue to drive up our costs and that are at the base of raw material cost increases. Fuel costs are affecting everything we do. What is copper mining equipment run on? Fossil fuel is my guess. Fuel cost increases have even driven up the cost of transporting beans to your local Starbucks (although there seems to be no pricing threshold on lattes).

When Bush said we were addicted to fossil fuel, he couldn't have been more on the money. Fuel's increase touches so many things, especially our businesses. What about health insurance? We did the dance of joy when our health insurance premiums "only" went up by 12 percent this year.

I have friend that is a service writer for an Audi dealership. It is a real nice place. I got to talk with him the other day about their practices. They bill time and material of course, which I strongly recommend for rebuilders. They bill, on average, 120 percent of their mechanics' hours. They charge $105 to $135 per hour based on the complexity of the job. Things like electrical problems and drivability issues get the $135 rate. Things like the jobs the auto electrics regularly get are the highest priced on the block. So they bill out, on average, more than 20K of labor every month on every mechanic. Parts are additional!

I tell this story to rebuilders that are so sure of what their customers will and will not pay for their services. The point being that many rebuilders charge the same today as they did five years ago. In contrast, five years ago, that same dealership was only $75 an hour. The difference is that as costs rise, dealerships and general car repair shops increase their hourly rate and react to the ever-rising costs of doing business. Beyond that, consumers are much more understanding of labor rates rising, because they see it all the time, every year. Yet if your invoice just says "Repair 1 Delco starter…$185" most consumers have nothing to relate it to.

However you choose to do it, users of our products will need to pay more for our products. It's simple, they now cost more to make. There is no escape this time.

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