Velocity: It Will Not Be Ignored

By Nick Staub

Maximizing the profitability of every sale has never been more important than it is today. The industry continues to become more challenging as margins are attacked from every angle and units are available on every corner. Reeling in as much possible profit from each sale will allow rebuilders to survive as the game gets more and more difficult. This will require an approach that is far different than the principles we all learned growing up in this industry. I see some rebuilders adapting to it and they are enjoying the best business of their careers.

When I got into the business things were far simpler. A dozen starters and alternators would cover 85 percent of the cars on the road. There weren't too many flavors when it came to our work. Everyone priced by family. All Ford starters were one price. Even as imports entered the market, family pricing was still used. Industry leaders still price new units as one-price-fits-all within a family. In fact, even China sells using this same approach. No doubt it simplifies things, but at what cost?

The age-old rebuilder theory is that a family of units cost you all the same to rebuild, and therefore you should sell all within the family for the same price. Unfortunately, this innocent and logical theory that has driven our industry for so many years is false on both counts.

Similar units do not cost the same to rebuild just because they use the same armature and solenoid. Rebuilders have a tendency to think optimistically in terms of their cost. They recall the day they put out 15 40MTs and they hang onto that memory. They use it to calculate cost in their minds. A rebuilder might say when I build Ford PMGRs I build 10 of these, seven of the next popular unit, five of the next three and maybe one each of the three slower moving units. Assuming our sales are predictable (LOL, gosh I kill me), we would sell our way out of these at a predictable rate just in time to build them all again. You know—build in a batch, economies of scale and the like.

Sounds good on paper, unfortunately we're not in the paper business. Things that sell faster than others cost you less and things that sit on your shelf cost you more, even if they have the same components. This is a mathematical fact. If you borrow money from a bank, parts that sit on the shelf accumulate additional cost every month they sit there and as you pay interest. Don't think that because you don't borrow from a bank that you are somehow immune to this fact, although I am personally jealous of you.

If you buy a drive and stick it in a starter and the starter sits on the shelf for a year it is also accumulating cost. If you hadn't bought the drive in the first place that asset could be providing you a return in some fashion, but instead it sits in a starter for months on end (scared and lonely I might add). So there's your money, tied up and giving you no return, unless you recognize that it is a slower moving item that has accumulated additional cost and you sell it for more regardless of its family tree. If you do that, your long term investment has suddenly paid off and you have made up for the fact it lingered on your shelf. Just because they look the same, doesn't mean they cost you the same.

I am a student of the game. Business simply fascinates me (I know I need a hobby). I always watch my customers, suppliers and competitors to see what they do right and what they do wrong. Always recognizing great ideas and practices and strategizing about how I can apply these to my business. Most all of my influences were from other companies that I worked with and watched. This, among other things, formed what is now my business model. These role models have changed throughout the years as these companies have evolved. So has my business model. Some aren't role models anymore. Some are out of business.

One company that remains a great inspiration for me is Wilson Auto Electric in Canada. They are the quintessential example of the virtues of velocity pricing. If you aren't aware, I believe Wilson to be the largest industrial rebuilder in the world. Let's take for example a 25MT starter. They only get so exotic no matter how pretty you dress 'em up. There is CW and CCW, a handful of drives and depending on your preference, three armatures. If you isolate Wilson's 25MTs you'll find that they charge as low as $125 and as high as $300 jobber within this family.

Why would they do this with units that, by age-old reasoning, cost them the same? Because of velocity. OK, not just velocity but it is one of the major factors. The fast movers are very competitively priced, but the dogs are gonna cost you. And they should cost you, because Wilson goes to great lengths to make sure these oddballs are on the shelf when their customer calls. These starters sit on their shelf for a long time, too, tying up their money.

In any event, it is hard to argue with success, and Wilson is at the top. I attribute a lot of their success to this pricing strategy. Again Wilson is the largest industrial rebuilder in the world and they did it without being the cheapest. In fact, like their quality, their price is on the higher end—very unique in our market and very admirable.

Velocity pricing is nothing new to our industry and definitely not new to the overall auto parts industry. When I was first in the business we were a Prestolite and Motorola distributor. This was before they were one company. Both companies supplied WD price sheets, independently, where the margin between WD and jobber varied, depending on the rank. A movers had the lowest margin for us and the D; E movers were up to 10 percent higher margin. The concept is that if you make a higher GP on the oddballs it might entice a distributor to invest and go ahead and stock the oddball item.

This is the role of the distributor in the manufacturer/distributor relationship. The manufacturers want the WDs to stock everything they offer so their product is available quickly and efficiently to the consumer of the product. The distributor, in turn, needs a return on their investment. Velocity pricing provides a win-win situation for both.

Although small rebuilders don't play on that level, the theory is easily transferable to the small rebuilder's world. I explain this to rebuilders so they realize how the automotive world works and how they fit into it similarly. It has become such an issue that many of the large automotive distributors like AutoZone have successfully convinced manufacturers to not make price sheets. The distributors say: “You make parts, that’s what you do. We distribute parts, that’s what we do. Let’s make a deal, we won’t tell you how to run your plant and you don’t tell us how to go to market.”

By setting a price the manufacturer is creating a box that the distributor must work within. But manufacturers are rarely in touch with the ebbs and flows of distribution. Distributors know what is selling and what isn’t. They know what has to be sold below “desired” margins because of competition and what needs to be sold above them to justify stocking them.

I have heard customers say they don’t want to gouge their customers, which is very honorable. Yet defining this term is very personal. Gouging to one guy is maximizing profits to another. Remember this industry was founded on the principle that rebuilding would save dollars over new products. However that entire principle is no longer accurate. We all know the reasons, and complaining about them will be as productive as complaining about gas prices. Ain’t gonna change it. Today’s small rebuilder is really more accurately defined as a small auto electric distributor, with rebuilding being only one of the services they offer, rather than the only service they offer.

All this being said, I only know this: Rebuilders need to be profitable to survive as the stakes are raised. The latest training, equipment and computerization advances will only be afforded by profitable companies. Without profit it will become nearly impossible to invest in your business. If you don’t invest in your business it will slowly begin to lose its viability in your market as more units continue to become available to your customers from multiple sources.

Businesses like ours are like plants. You need to feed them by consistently investing in them if you want to see them bloom and continue to year after year. Get ‘r done.

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