

I'm Not Spending Money on that Heap!

by : Ed Kovalchick

“You gotta be kidding buddy boy, I bought my first freakin’ house for that amount. OK, not really.”

Getting a vehicle repaired has gotten to be an expensive proposition, or so it seems during the past decade. Dropping a cool \$2,000 to \$5,000 on an engine or drive train repair isn't uncommon, and more and more vehicle owners are choking, gagging, whining and crying (typically in that order), when presented with their seemingly astronomical estimates.

But why the pain?

First of all, labor rates charged by service departments today are an actual bargain. Consider that hourly computer repair charges are usually in the hundreds, along with some appliance repair rates, where the only tools needed are Google, a screwdriver and a pointed hammer (in case the screwdriver thing doesn't work). Moreover, training for these work skills often consists of a \$995 two-week online self-study course being hosted somewhere in the Bahamas. What is the problem? Of course, I am exaggerating a bit.

Dealer parts' markups are chicken feed compared to most products. I recently sat beside a sneaker manufacturer/ importer on a flight where he confided that his company only paid \$18, including shipping costs, for a pair of sneakers no matter what the selling price, and he was talking about a fancy \$100 pair! Parts departments are lucky to make 40 percent gross profit – gee, price gouging galore – give me a break.

The investment phenomena

Figuring that the average vehicle sells for just under \$30,000 and driveline components, along with the electronics and other gizmos make up the majority of that cost, it should be no wonder that it may take a few grand for larger repairs. Also, owners have the distinct benefit of practically no maintenance costs compared to only a few years ago – most vehicles today can be completely maintained for 100,000 trouble-free miles for under \$1,500 – a propitious deal by anyone's standards.

To blow off a few grand at 200,000-plus miles should be considered a gift, yet many vehicles don't even require this kind of expense at the 300,000-plus mile level. Vehicle ownership is cheaper, as a percent of purchase versus use, than ever in history. Over the past 25 years, I have made it a point to question taxicab owners about their maintenance and repair habits and related costs. Their results have been particularly amazing, especially in the last decade. Most taxi companies are keeping vehicles to a minimum of 300,000 miles, many times with very few noteworthy repairs! Will the excitement never end?

The back breaker – gasoline prices

Thanks to growing gasoline prices, here's the newest repair whine: “I don't want to get my vehicle repaired because it doesn't get good gas mileage (sniff). I think I'll buy a new one to get the improved mileage and save some dough.” Yeah, right pilgrim – and we're all getting a tax cut with the next government administration too.

With this column, I have included a systematic spreadsheet to calculate the costs of repairs and current ownership, versus the real costs of purchasing a so-called more fuel-efficient tin can. This calculation incorporates the subsequent four-year period of ownership. I have utilized this spreadsheet in numerous cases, and only once in a blue moon does the customer save money by buying another vehicle. Wow, maybe everyone will win.

Not to fear

Repairing today's vehicles, which can function acceptably up to 400,000 miles and more, is smart dealing for the customer, and the service and parts departments. Of course sales managers, who dare read anything substantial about fixed operations, will be taking offense here, but the facts are that the gross profit (bill paying money) margin is far better in the “back end” than the “front end” – sorry, datum are fact (sounds funny). Service and parts' grosses at least a 50 percent margin on a repair – end of story.

The good news for sales is that they have a considerable story to recite, explaining why a shopper should feel quite comfortable plopping down relatively big bucks to buy a vehicle. Even though today's vehicles are financed close to the lifetime of a common cat, they will still be running strong to the bitter end with a nominal maintenance and repair investment. This is truly manna from heaven.

OK, the spreadsheet

I envision a smart service manager teaching his customer-processing staff, OK, service advisors, etc., how to employ this fact-gathering worksheet to close some nice-sized repair bills. Calculating this reality check establishes the facts for the dumbfounded enthusiasm customers have for spending more on another vehicle, while thinking they are spending less. This computation is a wake-up call for anyone who thinks getting an extra 10 to 20 miles per gallon is a pocketbook panacea.

Actually, this reckoning might be something to forward to all your service and parts customers still boogying with an older vehicle. They may be sitting on needed repairs not realizing that buying them may indeed be the smarter move. If you e-mail them, send it as an attachment they can download.

E-mail me at ekovalchick@dealer-magazine.com (Subject line: Fix the Heap) if you want my Excel spreadsheet to do your own calculations. It will likely make you a buck or ten.

Ed Kovalchick is the CEO and founder of Net Profit Inc., an international fixed operation consulting and training firm located in Alabaster, AL. Kovalchick and his firm have assisted hundreds of dealers and manufacturers and conducted workshops for thousands of students since 1979. He has written columns for Dealer magazine since its inception.