



## Your Costs Are Up. Is it Time to Raise Prices?

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**Every town and city** in America has them: boarded up storefronts with "For Lease" signs. Spaces where local, small business owners once invested their money, their time, and their hopes, only to be undone by a challenging economic environment. In these unprecedented times, many business owners did not anticipate that their expenses would surpass their revenue.

The current economic climate has similarities to the raging inflation of the 1970s as we are seeing the highest price increases since then. Everything is going up – the cost of goods, operations, and especially payroll. Not only are you having to pay more to hire and retain highly competent employees, but they too are facing a higher cost of living.

Inflation is especially challenging for the auto installed business, which tends to be very competitive, price-sensitive, and largely driven by promotional discounts. Yet as suppliers' costs increase, at some point they will pass these higher costs on to you – the shop owner. As part of the value chain, sooner or later shop owners will have to do the same by increasing prices to their customers to remain profitable. In these extraordinary times, it is key that owners do what they can to have a positive balance sheet so that they can stay in business and service their customers, and the local economy, for the long term.

Your customers are certainly aware that we are in an inflationary cycle. They are seeing significant price increases in almost every aspect of their life. It will not come as a surprise that their next oil change will cost more than their last one. Still, how you message this is important. So, use this as an opportunity for your employees to reinforce the value that your shop delivers. To maintain the level of quality and service that your loyal customers are used to, you must make sure your business remains profitable.

It is important that employee training includes guidance on how to answer customers' questions about pricing. This may also be a time to recommend premium products, like full synthetic motor oil or high-end windshield wipers. These higher-end products and services can cost more up front, but they have the potential to save your customer money and will be better for their vehicle's overall maintenance in the long run.

This is not the time to compromise on the quality of the products you sell or the service you provide to reduce costs. That strategy will prove far more detrimental to your business in the long run than a reasonable price increase. Instead, consider performing a little extra service within your new price structure, such as a free fluid top-off or interior vacuuming with each oil change.

It is also tempting in these cycles to cut back on marketing expenses, but that could prove to be counterproductive as local site marketing is one of the best ways to attract new customers to your shop. It is entirely appropriate, however, to reevaluate your marketing mix and promotions objectively and focus your resources on the most effective activity.

There are other things you can do on the expense side, too. Are you operating as efficiently as possible? Consider, for example, an inventory management and storage system that is more cost effective. Take a look at your product mix relative to the market and make sure you are stocking the right products for your customers.

Do price increases make you vulnerable from a competitive standpoint? The reality is there will always be a competitor that sells their services and products at a much lower price and potentially those are the businesses that will have the boarded-up shops at some point in the future. This is a time to stand by your quality standards and focus on delivering a superior customer experience that will far offset the initial reaction to a price increase.

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