

EQUIPMENT COSTS - - - - WHAT IS IN THE FUTURE?

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To give an accurate forecast of future equipment costs would mean that all economists agree on the future of our economy and the availability of materials. Presently, most economists do not agree in terms of the next twelve months, however, after that period, there appears to be an upswing in the economy.

WHAT ABOUT CURRENT EQUIPMENT COSTS?

First, let's establish that individual component parts that make up equipment will have risen an unprecedented amount during 1973 and 1974.

Some typical examples of cost increases are:

Small H.P. engines - 15% and more coming.

Tractor engines in 1974 went up approximately 7% and are now increasing an additional 20%, effective January 1st.

Some malleable castings went up as high as 59%.

General hardware has increased 28%.

Some specialty paper has gone up 50%.

Springs, during the past twelve months, have gone up 16-20%.

Reel blade and bedknife steel has gone up 27%, while some specialty steel increased as much as 57%.

As you can see, these increased costs have caused prices to rise.

WHAT ARE SOME OF THE UNDERLYING FACTORS IN TURF EQUIPMENT PRICE INCREASES?

About January of 1974, most manufacturers began to realize that material and labor variances were far beyond their estimates. Since the price controls were in effect at that time, no action was permitted unless a relatively complicated program was presented for review. The government did permit price increases if a manufacturer could show substantial proof of increasing costs. As applications were being processed in January, February, and March, some price increases began to hit April 1st.

When price controls were lifted at the end of April, all manufacturers took another look at their variance from standard costs, and prices began to rise rapidly during the months of June, July, and August. Because manufacturers of equipment are unable to react as quickly as some other industries might, most turf equipment prices did not begin to increase sharply until the beginning of July. In spite of these increases in prices, costs continue to climb and equipment manufacturers are beginning to look for alternate sources of engines, castings, hardware, steel, gears, chains, and other components.

IS THERE ONE MAJOR CAUSE OF THESE INCREASES?

There are several elements in our economy that have caused costs and prices to increase over which the general manufacturer had no control. If we were to project the largest single cause, it would be that most major manufacturers did have to react to the many safety standards.

We are told that many small casting companies were forced to close because they could not afford to meet the occupational safety and health act standards within their plant. Others accepted the standards, and proceeded to spend large

amounts of money necessary to meet the occupational safety requirements.

At this same time, manufacturers of power equipment were required to put on safety devices that increased the costs anywhere from 3% to 18%. Such items as shields, safety switches, interlocking starting systems, were crash programmed into products. Obviously the activity of providing the safety requirements deterred badly needed cost reduction programs: hence, a build-up of costs occurred beyond the normal projections.

The sad story of these safety requirements is that those manufacturers who earnestly tried to comply were actually placed in an untenable position of raising prices to meet safety standards, while others disregarded them, and continued with smaller price increases. As it stands, safety for major manufacturers is of extreme importance, but if small companies are not required to comply with the standards, the losers turn out to be the major manufacturers or those consumers who are risking accidents. One could liken the situation to that of the safety belt requirements in cars. While a turf equipment user may pay for some of the safety requirements, such as switches and interlocking systems involving complicated electrical circuitry, we have found in the field that they often merely "clip the wires" and use the equipment without the devices.

WHAT ABOUT THE YEARS AHEAD?

No one can decide precisely how to guard against inflation, because there is no sure way. Steps are being taken by manufacturers to prevent their receiving unreasonable component part increases. Some manufacturers in the turf equipment business are entering the business of producing their own major component parts.

We are sure that every company is going through cost reduction programs in order to keep price increases at a minimum. If manufacturers are successful in these cost reduction programs, it would appear that by late summer of 1975, price increases should begin to slow to a normal rate. Our "crystal ball gazing" is based on:

1. Technological improvements in production and cost reductions in manufactured components.
2. Interest rates for money decreasing to the extent that the economists indicate by mid-summer.
3. Manufacturers coming out with new products for 1976 and 1977 to replace equipment presently in the field.
4. Legislation being passed whereby manufacturers can be encouraged to take cost reduction steps without being penalized by higher taxing or reduced write-offs of tooling and investments.
5. Prices softening on base materials involved in automobile manufacturing.

SUMMARY

We have tried to cover some of the basics of equipment costs and prices. Our discussion here is far from the sophisticated approach that is necessary for investment and planning. Every journey begins by the first step. We can assure you, the major turf equipment manufacturers are taking those first steps to bring you better equipment, and better prices in the future.