Why do Toolbox Manufacturers Charge High Interest Rates and Mechanics are willing to pay for them?

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*The high interest rates of toolbox financing provide benefits for the manufacturing company and the mechanics. The company increases their net income and the mechanic receives financing, convenience and the name brand.*

We have all been there. We walk into the garage of our mechanic's shop, taking a quick glance; we see the huge elaborate toolboxes that each mechanic owns. Most of them are from Mac, Matco or Snap-On. Unless you work in the tool industry most people do not realize what the real cost of each of these boxes is.

The average toolbox costs a minimum of $4,500 and can run up to $9,500 for just one component of the set. The Big Three toolbox companies in the industry are Mac, Matco and Snap-on and all are using outrageous interest rates depending on state requirements. The rates vary from 6.25% all the way up to 22.50% in most states.


**Figure 1: Matco Tool's MB7525 displaying the new Patriotic design.**

So how much does that toolbox really cost if a mechanic makes weekly payment for the whole term of the contract? A $4,500 dollar contract as the principle balance at 22.50% interest while paying $32.71 a week for 208 weeks (4 years) will cost a total amount of $6,803.68. That is over $2,000.00 in interest. Looking at a $9,500 dollar contract at 22.50% interest while paying $69.06 a week for 208 weeks, will cost a total amount of $14,364.48. That is almost $5,000.00 in interest!

Looking at this scenario from a company's perspective, there has to be a point of competitiveness. Each manufacturer offers in-house financing for mechanics that are interested in buying their product. Due to many mechanics having little or damaged credit, the companies are taking a financial risk by financing them. Considering that for every 100 contracts the company buys 2 will default on the loan. There is a 2% chance of default on a loan. Each company buys 300 contracts on average per day, approximately 78,000 contracts annually which means that 1,500 will more than likely default. The rate of interest on the company's part is determined by an estimate of how much money will be lost.

If the interest income from these rates makes up approximately 35% of each company's net income, then the total amount of interest income would be 37% from these contracts.[1] For the company, the benefit of bringing in a 35% net income outweighs the cost of a 2% loss of interest income.

The other point of view, the mechanic's, involves three solutions to this question. One mechanic would say he does not know the interest rate on the contract, another would say there is convenience factor, and the third would say because of the brand's reputation.[2]

One might be ask, "How could someone not know what the interest rate is that they are paying on a contract?" It is a little known fact but the interest rate is not printed anywhere on the contract. Companies are not required to disclose the rate in writing and many mechanics do not bother to ask until the contract is already signed. Companies are however required to give a 3-day cancellation period per contract. Some mechanics do take advantage of the 3 days to cancel their contract but the majority believes in the old cliché, "Ignorance is bliss." This is how a mechanic would not know what the interest rate actually is.

How could there be convenience with a contract that could cost a mechanic up to $5,000 in interest? There are two answers to this question. The first is due to the type of industry the toolbox business is. The companies have distributors that come to each mechanic's shop on a weekly or biweekly basis. Someone is there to service their tool needs and collect the weekly payment for the company. To the mechanic it offers a sense of personal service from one company.

The other answer to this question can be answered by looking back at the company's viewpoint. If a mechanic has little or damaged credit how are they going to be able to go to retail store such as Sears and purchase a similar product for $3,000.00?[3] The convenience of having someone there to finance a mechanic on the spot provides the ability to purchase their "dream box."

The last reason that a mechanic would be willing to pay the high interest rates is due to the name. Each company is a 'Brand Name,' each carries its own reputation for their overall quality. The

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[1] The figures were calculated based on information obtained from http://www.snapon.com/investor/investor.asp on September 12, 2003.

[2] The answers to these questions was provided by S. W. of Arizona, a Matco Tools Authorized Distributor.

[3] The pricing information was obtained from http://www.sears.com/sr/search/results/searchresults.jsp on September 12, 2003.

idea of owning ”The Best,” is usually the reason given when questioning a mechanic why they chose the option of in-house financing to pay for their box.

The high interest rates for toolbox financing provide a win-win situation for the companies and mechanics. The companies make a profit off of the interest income while the mechanic receives three major benefits. The mechanic has the ability to establish or reestablish their credit, the convenience of a company representative collecting their payments while servicing their goods and owning what they classify as “the best.”

Works Cited


Matco Tools. (2003, July 28). Patriotic Workcenter Hutch Door. *Matco Eagle 28-30* (8). Retrieved September 12, 2003 from https://www.mydanaher.com/content_documents/s_z/Week2829302003v2.pdf