



THREE PRICING STRATEGIES TO BOOST PROFITS IN THE PARTS DEPARTMENT

In the parts department, there are times when parts managers have no choice but to discount or sell parts at cost. In many dealerships, this leads to a mindset that it's difficult, if not impossible, to make parts profitable.

The good news is it's not only possible, but actually pretty easy to increase profitability in your parts department. All that's required are a few tweaks to price settings in your dealership management system (DMS). Most DMS solutions offer these setting options that, over time, can increase your parts department profitability up to 50 percent in one year.

Matrix Pricing

Matrix pricing is a system where you take a part's initial cost and multiply it by a certain number to come up with the selling price. The lower the cost of the part, the higher the multiplier. For parts that cost up to 10 cents, I recommend a mark up of 975 percent. I know that sounds like a lot, but if a part costs 10 cents, instead of selling it for the MSRP of 18 cents, the matrix price would be \$1.18. Not so outrageous, and on a repair order (RO), the amount is downright negligible.

As the cost of the parts rise, the markup percentage drops. I recommend capping matrix pricing at \$20. For any part that costs \$20 or more, revert to selling for the MSRP.

Matrix pricing should only be used on parts sold to the service department for ROs. It should *never* be used for over-the-counter parts sales. The Internet has made parts pricing so transparent that a customer can easily use their smartphone to look up a price. When selling parts over the counter, stick to MSRP. On ROs, customers rarely question pricing on parts and, if they do, the total amounts are such a small



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percentage of the overall RO they shouldn't raise any red flags.

Also, matrix pricing shouldn't be used for *all* parts, such as oil filters, because prices for those are pretty standard.

Matrix pricing is a quiet, gradual method for growing profit margins on smaller parts. It may take a year to realize the impact to the bottom line, but on average, this strategy can produce an increase in parts department profitability of 50 percent.

99-Cent Round Up

This pricing strategy automatically rounds up the price of every part to end with .99. So, if a part sells for \$21.80, the system will round it up to \$21.99. If a part sells for \$210.05, the system will round it up to \$210.99. It doesn't have to be 99 cents. The price can be rounded up to end in .29 or .95 or whatever number you choose.

This pricing model can be used for customer pay parts, but should never be used for wholesale customers. Again, this is a quiet and gradual way of growing profits over time. Over the course of a year, this method alone could result in profit gains up to 25 percent.

Margin Pricing

Margin pricing is designed to protect dealers

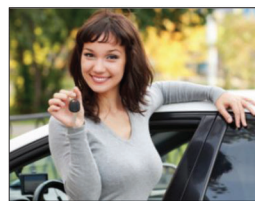
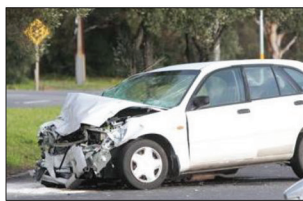
from losing money on parts sales to wholesale customers. Certain parts from certain manufacturers don't have a high margin of profit priced in to begin with. When you sell those parts to a local repair shop and give them a 20 to 30 percent discount, it's quite possible — and this happens more than you think — that you've just sold the part for less than what you paid for it.

For example, let's say you pay \$4,000 for a transmission. Your manufacturer's MSRP may be as low as \$4,250, for a total markup of \$250. If you then turn around and sell that transmission to a local repair shop for a 20 percent discount, you've just sold the transmission for \$3,400 — a *loss of \$600*.

Margin pricing automatically calculates what the margin of profit is on every part, then adjusts the discount accordingly so the dealer always maintains a profit. This feature applies to wholesale customers the most, but it could apply to over-the-counter sales if the customers are asking for a discount. Your customers should understand that your dealership can't sell a part for less than cost.

These pricing settings reside within your DMS's "Calc Code" and your DMS provider should be able to help you with implementation and/or set up.

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