

Matrix or No Matrix? Maximizing Parts Profits



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Today's Workshop is all about...



- **Identifying & Analyzing**

- ☐ Current pricing strategy within your parts operation.
- ☐ Review the Manufacturer margins.

- **Adjusting**

- ☐ Change / Update your existing sales settings.

- **Monitoring & Reviewing**

- ☐ Reporting methods to measure sales mix and profit percentages.

Two Segments of Retail Pricing



- **Retail Pricing**

- ☐ Customer Pay Repair Order Sales
- ☐ Counter Ticket Customer Retail Sales



- **Wholesale Pricing**

- ☐ Mechanical Shop Sales
- ☐ Body Shop / Collision Sales



Thinking of Retail Stores...

Wal-Mart, Costco, Macy's, Grocery Stores etc.



We are inundated with advertising bombardments daily!



Sale!!!

50% Off Savings

Today Only!

“What is on Sale today isn't necessarily on Sale tomorrow!”

The “failure” of the parts pricing process.



When was the last time you changed your pricing strategy?



Dealership Parts Pricing Strategies are as old as the Middle Ages. Rarely changed, rarely reviewed!

4 Steps to building an effective pricing strategy:



“In Depth” Analysis of Past Sales / Consistency!



The 40% profit margin “rule” Domestic



Ford Motor Company Pricing

DESCRIPTION	#PARTS	PNP%
TOTAL OVER 40%	2677	67.16%
TOTAL AT 40%	498	12.49%
TOTAL BETWEEN 30-39%	469	11.77%
TOTAL UNDER 30%	342	8.58%
TOTALS	3986	100.00%

- ❑ **67.16%** of the part number population has over a 40% profit margin.
- ❑ **12.49%** of the parts for sale are at the traditional 40% margin.
- ❑ There is still 20.35% of the parts under the 40% margin.

The 40% profit margin “rule” **Import**



Subaru Pricing

DESCRIPTION	#PARTS	PNP%
OVER 40%	203	0.61%
TOTAL AT 40%	2093	73.18%
TOTALS BETWEEN 30-39%	244	13.62%
TOTAL UNDER 30%	186	12.60%
TOTALS	2726	100.01%

- ❑ Less than 1% of the part number population offers more than a 40% profit margin.
- ❑ **73.18%** is at the traditional 40% profit margin.
- ❑ **26.22%** is below the 40% margin, which happens to be primarily maintenance items.

The 40% profit margin “rule” **Luxury Import**



BMW Motors Pricing		
DESCRIPTION	#PARTS	PNP%
TOTAL ABOVE 40%	1609	24.75
TOTALS AT 40%	720	11.08%
TOTALS BETWEEN 30-39%	3373	51.89%
TOTAL BELOW 30%	798	12.28%
TOTALS	6500	100.00%

- ❑ 24.75% of the part number population is above a 40% gross profit margin.
- ❑ 11.08% at traditional gross profit margin.
- ❑ 64.17% below the 40% gross profit margin.

An Accurate Evaluation



Getting an “Apples to Apples” Comparison?



**How much money is being
“Left Behind”?**

The Matrix Table – Retail Escalators



Sample of a typical Escalator Matrix Table

If Cost is.....

Low Cost		High Cost	Escalate	Sign	%
\$0.01	TO	\$10.00	COST	+	100.00%
\$10.01	TO	\$25.00	COST	+	80.00%
\$25.01	TO	\$100.00	COST	+	75.00%
\$100.01	TO	\$250.00	COST	+	70.00%
\$250.01	TO	\$9999.99	COST	+	67.00%

An Escalator Category



Certain Categories have different Escalation Percentages or “Mark Up”

Low Cost		High Cost	Escalate	Sign	%
\$0.01	TO	\$10.00	COST	+	100.00%
\$10.01	TO	\$25.00	COST	+	80.00%
\$25.01	TO	\$100.00	COST	+	75.00%
\$100.01	TO	\$250.00	COST	+	70.00%
\$250.01	TO	\$9999.99	COST	+	67.00%

Each “Low to High” Dollar Value is an Escalator “Category” or “Group”

The “Escalator Yield” Just Retail



In a “Perfect World” Scenario

Low Cost		High Cost	Escalate	Sign	%	Yield
\$0.01	TO	\$10.00	COST	+	100.00%	50%
\$10.01	TO	\$25.00	COST	+	80.00%	44%
\$25.01	TO	\$100.00	COST	+	75.00%	42%
\$100.01	TO	\$250.00	COST	+	70.00%	41%
\$250.01	TO	\$9999.99	COST	+	67.00%	40%

What you should expect percentage wise from each Escalator category.

Evaluating Each Escalator Category

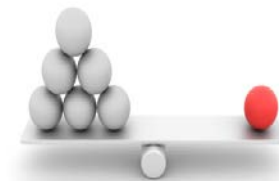


Focusing On The “Actual” versus “What if” Sales Figures

		Reality					What if			
CATEGORY	DESCRIPTION	QTY	TTL COST	TTL SALE	TTL GROSS	GP%	MATRIX	MAT GROSS	MATRIXGP%	PIECE%
\$.01-10.00	COST + 100% TOTAL	1919	\$501	\$814	\$314	38.5%	\$1,002	\$501	50.0%	49.1%
\$10.01-25.00	COST + 80% TOTAL	911	\$12,521	\$19,565	\$7,043	36.0%	\$22,538	\$10,017	44.4%	23.3%
\$25.01-100.00	COST + 75% TOTAL	647	\$36,613	\$55,984	\$19,370	34.6%	\$64,073	\$27,460	42.9%	16.6%
\$100.01-250.00	COST + 70% TOTAL	310	\$22,595	\$34,761	\$12,166	35.0%	\$38,411	\$15,816	41.2%	7.9%
\$100.01+	COST + 67% TOTAL	122	\$22,726	\$36,514	\$13,789	37.8%	\$37,952	\$15,226	40.1%	3.1%
	GRAND TOTAL	3909	\$94,956	\$147,638	\$52,682	35.7%	\$163,976	\$69,020	42.1%	100.0%



A Huge Difference!



We Know Now!

DESCRIPTION	TTL GROSS	GP%	MAT GROSS	MATRIXGP%	DIFFERENCE
GRAND TOTAL	\$52682	35.7%	\$69020	42.1%	\$16,338

We now know how much money was
“Left Behind”?

“What if” You bump an Escalator?



Estimating a Bump in the 10.01 to 25.00 Escalator by 10%

Cost + 80.00%					Cost + 90.00%				
Current	Cost	Sale	Gross	Pct%	Future	Cost	Sale	Gross	Pct%
911	\$12,521	\$22,538	\$10,017	44%	911	\$12,521	\$23,789	\$11,268	47%

An increase in Gross of \$1,251 dollars.

An increase of 3% in this Escalator Category.

Summary of All Escalator Sales



Supporting the Theory that only 25% of Retail Sales are Escalated

GROUP	DESCRIPTION	QTY	COST	SALE	GROSS	GPCT	PIECE PCT
TOTAL CP SALES	AT OR ABOVE MATRIX	1175	\$7,665	\$16,754	\$9,089	54%	24%
	BELOW MATRIX, AND/OR RETAIL	2789	\$29,900	\$51,050	\$21,150	41%	57%
	BELOW RETAIL	920	\$10,446	\$13,892	\$3,446	25%	19%
	TOTAL	4884	\$48,011	\$81,697	\$33,685	41%	

This is very “typical” of most Dealership Customer Pay Sales using Escalated Matrix Tables.

The Application... Investigate!



Understanding the Details of your Retail Pricing Matrix!

Identify those parts in each Escalator Category that are dragging down the gross.

- Is it due to a different price code?
- Is it because of a different labor type?
- It could be a source accounting issue?
- Are these parts menu or grid priced parts?
- Is someone overriding the sale price?

Review these areas of your Operation for pricing issues.

Check Your Price Codes



Sample Screen Shots of Price Code Program

Look at CDK's OSPC Report or Reynolds 2565 Program

```

Setup Delete Report uTil eXit
SCH-I OSPC Set Up Price Codes partsedg 6039

Price Code Table(s): Parts,Repair order
Source(s): All
Sort By: Source
Printer/Queue: TERMINAL
Number of Copies: 1

Confirmation
Print report(s)
Exit without printing report(s)

Use arrow keys to highlight an option, then press ENTER to select it.
F3=Return to Screen
Connection Established
  
```

DEPARTMENT TYPE			
	SERVICE	BODY SHOP	POI
1 CUSTOMER PAY PRIMARY PL	1	2	1
2 WARRANTY PRIMARY PL	40	40	40
3 INTERNAL PRIMARY PL	8	8	8

I

(LINE#)(E=ENTER)(W=WARRANTY OVERRIDES)

This report will show you how your price codes are being used. With CDK, don't forget to review both "Parts" and "Repair Order" pricing, if you use them separately.

Are Price Codes “Labor Type” Driven



Sample CDK “RLT” Report Labor Types to review Pricing Policies

LABOR TYPE	LABOR TYPE DESCRIPTION	JOURNAL	PARTS PRICE CODE
CPC	CUST PAY CAR	31	1
CPT	CUST PAY TRUCK	31	1
CQSC	CUST QUICK SERV CAR	31	3
INC	INTERNAL NEW CAR	34	6
IRNC	RECON/DETAIL NEW CAR	34	6
IUC	INTERNAL USED CAR	34	6
IUT	INTERNAL USED TRUCK	34	6



Labor Type

Associated
Price Code



With CDK, Price Codes in Service are driven by the “Labor Type”.

The Override Reports



Override Reports can pinpoint any discounts and pricing issues

Sample CDK Override Report

INVOICE					OVERRIDES				
INVOICE	CUST NO.	CUST-NAME	OPENED	EMP	DATE	EMP	DATE	OVERWRITE	SOLD
172291	2021593	LEE, SCOTT	24JAN14	38	12FEB14	IO			9800

173752			10FEB14	38	12FEB14	S=28100			DT000-47101-B5

173839			11FEB14	66	12FEB14	IO			TIREFEE

173859	2143998	UPTON, DEBORAH	12FEB14	38	12FEB14	S=495			
173859	2143998	UPTON, DEBORAH	12FEB14	38	12FEB14	S=541			
173859	2143998	UPTON, DEBORAH	12FEB14	38	12FEB14	S=131			

173861	453773	TRAN, ALEX	12FEB14	38	12FEB14	S=541			
173861	453773	TRAN, ALEX	12FEB14	38	12FEB14	S=131			

173863	455289	HENDRICKS, JUSTIN	12FEB14	38	12FEB14	S=306			OIL
173863	455289	HENDRICKS, JUSTIN	12FEB14	38	12FEB14	S=541			04152-YZZA6
173863	455289	HENDRICKS, JUSTIN	12FEB14	38	12FEB14	S=131			90430-12028

173865	468935	JACOBSEN, MITCHELL	12FEB14	38	12FEB14	S=204			OIL
173865	468935	JACOBSEN, MITCHELL	12FEB14	38	12FEB14	S=541			90915-YZZD3
173865	468935	JACOBSEN, MITCHELL	12FEB14	38	12FEB14	S=131			90430-12028

173866	2185820	BEARCE, CATHERINE	12FEB14	38	12FEB14	S=541			90915-YZZF2
173866	2185820	BEARCE, CATHERINE	12FEB14	38	12FEB14	S=306			OIL
173866	2185820	BEARCE, CATHERINE	12FEB14	38	12FEB14	S=131			90430-12028

173867	2201291	ZENTZ, CHRIS	12FEB14	38	12FEB14	S=204			OIL
173867	2201291	ZENTZ, CHRIS	12FEB14	38	12FEB14	S=541			90915-YZZD3
173867	2201291	ZENTZ, CHRIS	12FEB14	38	12FEB14	S=131			90430-12028

"S=
Means they
overrode the Sale
Price!

Just about all
DMS Providers
have this report
available.
Review it daily!

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Application & Conclusion

Retail Review



Ideas to review after Investigation

Consider Some Alternative Ways to Increase the Profit Margin.

- Increase the sale price on menu priced items.
- Isolate low gross parts in a given source to track profit.
- Create a “sub” sale account if you are locked into these low priced parts.
- Eliminate the “Overrides” as much as possible.
- Adjust the Escalator Table as necessary.

Increase Gross Profits in areas where the gross is weak!

A Wholesale Question?



Write down who your best “Wholesale” Customer Is?

Were you able to quickly do that in your head?



Ponder this “Retail Scenario”



The Service Station Mentality

When the wholesale cost of a gallon of gas jumps up by 10 cents to a Gas Station Owner, what does the Owner do?

- a) Worry that Customers won't pay the extra amount and absorb the increase?
- b) Split the cost with the customer and only raise the retail price by a nickel?
- c) Raise the price to maintain their profit margin?
- d) Watch what other Competitors are doing to raise it affectively?

What Would Your Answer Be?



The Answer is both "C" and "D"



With that Answer in mind, and thinking as
the Dealership Owner...

If your supplier cut your discounts and incentives, would
you absorb the cost and continue to offer the same
discounts and pricing?

If Your Answer is "NO"
How come Dealerships are generally doing the
opposite of practicing this?

The “Wholesale Sale” Syndrome



We are quick to change retail pricing, and willing to fight over wholesale pricing!

Fact Check

- * It takes twice as much energy and resources to generate profit in wholesale as it does retail.
- * The wholesale sale process should “always” be a compliment to the retail sales process.
- * All Wholesale Customers are “Not” created equally!

A Wholesale Exercise



Two Collision Repair Facilities With a 25% Discount from Retail

Customer	12 MO Sales	12 MO Gross	Gross Pct%	12 MO Returns	Return Pct%
Accurate Collision (Charge Account)	\$95,000	\$23,750	25%	\$11,400	12%
Cascade Auto Body (Pays Cash on Delivery)	\$60,000	\$15,000	25%	\$2,400	4%

Ask Yourself These Questions?

- Which Customer above would you rather have?
- Do they both deserve the same discount?
- How do they pay their bills?
- Customer #1 has \$2850 in Gross Profit Returns, Customer #2 has \$600 in Gross Profit Returns.

Reviewing Customer Loyalty



Customer Ranking Reports

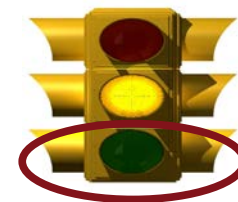


(BPDA.M) PDA MONTHLY REPORTS 12 FE	
FUNCTION	LAST RUN
1 MONTHLY TRANSACTION DETAIL	07 FEB 2014
2 CUSTOMER SALES HISTORY	04 OCT 2012
3 CUSTOMER GROSS-PROFIT HISTORY	04 DEC 2013
4 CUSTOMER CREDIT HISTORY	10 OCT 2012
5 SALES RANKING REPORT	29 NOV 2013
6 GROSS RANKING REPORT	04 DEC 2013
7 CREDIT RANKING REPORT	28 NOV 1992
8 MONTHLY INVOICE SUMMARY	20 DEC 2012
9 MONTHLY INVOICE DETAIL	21 DEC 2012
10 LOW GROSS PROFIT TICKETS	22 AUG 2011
11 CUSTOMER CREDIT DETAIL	14 OCT 2003
12 EMPLOYEE CREDIT DETAIL	12 MAY 2012
13 ZIP CODE SALES SUMMARY	09 AUG 2011
14 ZIP CODE SALES DETAIL	09 AUG 2011
15 EMPLOYEE SALES HISTORY	07 FEB 2014
16 EMPLOYEE GROSS-PROFIT HISTORY	25 JUN 2013
17 EMPLOYEE CREDIT HISTORY	20 JAN 2005

Enter Function Number <or> "X" to download to spreadsheet

CDK PDA (Parts Data Archiving) Monthly Reports

Developing a “Customer Loyalty Program” Green Light Customers



Wholesale Customers are not created equally!

Thinking of Your Customers in 3 Levels, Such as a Traffic Light.

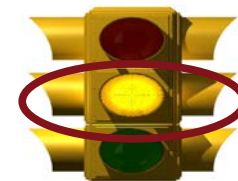
“Green Light Customers”

- Pay their bills on time or pay cash on transactions.
- Buy consistently from you, daily or weekly with decent volume purchasing.
- Send very little back for credit.

The Highest discount you can give profitably is deserved

“Customer Loyalty”

Yellow Light Customers



Wholesale Customers are not created equally!

Thinking of Your Customers in 3 Levels, Such as a Traffic Light.

“Yellow Light Customers”

- Are inconsistent in purchases, you are a secondary source for them.
- Buy erratically from you, do volume every 3 months.
- Have a high percentage return rate.
- Don't buy in a large volume, but buy often.
- Slow to pay their bills.

Lower the discount given by several percent compared to your Green Light Customers.

“Customer Loyalty”

Red Light Customers



Wholesale Customers are not created equally!

Thinking of Your Customers in 3 Levels, Such as a Traffic Light.

“Red Light Customers”

- Are inconsistent in purchases, you are a secondary source for them.
- Buy erratically from you.
- Have a very high percentage return rate.
- Complain a lot or try to convince you they are a top notch customer.
- Slow to pay their bills.

Lower the discount given, again, by several percent compared to your Yellow Light Customers.

The “25/10” or “30/5” Rule



Thinking of Operating Expenses and Holding Costs in the Parts Department

If you give a 25% discount to a Wholesale Customer and their return percentage is higher than 10%....

If you give a 30% discount to a Wholesale Customer and their return percentage is higher than 5%....



=

A Customer Who is costing you Money!



The question begs... Are you ready to make the time to take control of your Pricing Strategies?

Conclusion: It Boils Down to One Thing!



You should never have to make an excuse for making a fair profit!



**Focus on Your Profit Centers and Customer Loyalty
and the result will almost always be
happier customers and happier employees!**

Questions?

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