



NATIONAL
AUTOMOBILE
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Matrix or No Matrix? Maximizing Parts Profits



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There are two types of “Retail” Inventory we will deal with.

1. Customer Pay and Counter Retail Sales
2. Wholesale Sales
 1. Mechanical Sales
 2. Collision Sales



Compare your retail parts pricing to other retail outlets.

- Wal-Mart, Costco, Macy's, Amazon, Grocery Stores, etc...
 1. Many retailers change their pricing weekly.
 2. We are bombarded with “Sale” ads daily, weekly.
- How often do “Specials” in your dealership change?

- Write down one of your “Specials” in the box below

The “failure” of the parts pricing process.

Can you remember the last time you made major change to your parts pricing strategy?

1. Dealership pricing strategies are rarely reviewed.
2. Pricing strategies are rarely changed.
3. Most strategies are done in a “quick”, reactive process.

Compare your retail parts pricing to other retail outlets.

Four Steps to building an effective pricing strategy;

1. Evaluation –

- a. Reporting Mechanisms on your DMS System
 - i. CDK PDA Ranking Reports.
 - ii. Dealertrack Web Interface for Ranking Report.
 - iii. ERA Ignite Retail Inventory Management for Reynolds.
 - iv. Dealerbuilt Parts Library
 - 1. Parts Sold to Wholesale Customers
 - 2. RO Parts Sold



2. Investigation –

- a. Sort the retail sales ranking report by descending gross profit percent.
 - i. What percent of your retail sales are being matrix priced?
 - ii. What percent of your retail sales are being sold below the matrix price?

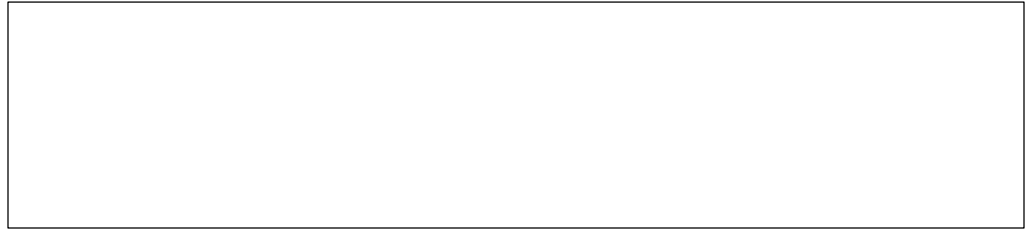
3. Implement –

- a. After careful investigation, making adjustments to the matrix can be a “trial and error” process. Finding the weakness and the areas of needed improvement in the pricing strategy is typically not a quick fix!

4. Review –

- a. If the effort is made to evaluate, investigate, and implement a new pricing strategy, consider making this a quarterly process as well. The best pricing strategy is one that is reviewed and consistently adjusted.

The 40% Profit Margin Rule



The industry pricing mechanism in the parts “suggested retail” margin from our Manufacturers has been based on a 40% profit margin.

1. There has been a “silent” evolution going on with regards to the 40% rule.
2. You can no longer depend on a flat “base” price to accurately forecast gross without knowing profit margins.
 - a. Pull a parts report for your inventory, collecting just the part number, the cost of the parts, and the list price of the parts.
 - b. Put this into a spreadsheet, then create two columns. One where you subtract cost from list, and then the other to divide the difference between cost and list into the list price to get a gross profit percentage.
 - c. Sort the report by gross profit and break it into three groups:
 - i. Parts with a gross profit under 40%
 - ii. Parts with a gross profit right at 40%
 - iii. Parts with a gross profit above 40%

A sample test of Manufacturer’s Suggested Retail

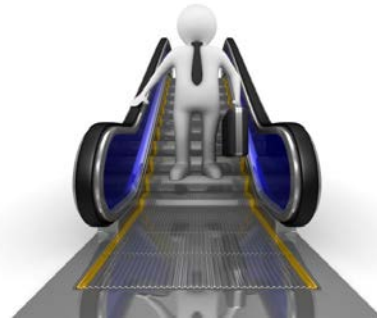
1. Ford had 67% of the Part Number Population above 40%.
2. Subaru had 73% of the Part Number Population at 40%.
 - a. Subaru has 26% of the population under 40%, mostly the fast moving maintenance products that sold the most.
3. BMW has 64% of the Part Number Population below 40%.

Take the above equation and make this an exercise at your dealership.



Matrix – A Retail Escalator Table

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%



Defining the Escalator Table

1. Report your existing “Escalator Setups”
 - a. CDK DMS = Report “RPB”
 - b. Reynolds DMS = Program 2323, Option 8
 - c. Dealerbuilt DMS = Set up, then Option 1, Parts Pricing Matrix
 - d. Dealertrack DMS = Application Environment, Stocking Groups, then #11 to review “Pricing Strategy Assignments”.
 - e. ASI DMS = Setup & Updates, Retail Matrix Pricing, or Sub Source Matrix Pricing.
2. Determine if you want to change your escalator process.
 - a. Is it based on a “Cost Plus” margin?
 - b. Is it based on a “List Plus” margin?

Determining the Escalator Table Yield

1. Determine the profit percentage for each escalator category.
 - a. For example, “Cost + 100” should yield a 50% profit margin.
 - i. Multiply your Cost or List field times your escalated percentage.
 - ii. Subtract the Escalated Retail Price from Cost.
 - iii. Divide the difference into the Escalated Retail Price for percentage.

Comparing the Parts Report to the Escalator Yield

- Using “the Actual Sales” Report pulled on Page 2, compare this to your “Escalator Yield” Report at the bottom of Page 6.
 - How often are retail sales “missing” the matrix?
 - How often are they being sold below retail or matrix?

In an informal study we conducted with 120 dealerships back in 2013, with over 14 different manufacturers, we pulled only retail sales for these stores over a 2 month period.

- All 120 dealerships had some sort of matrix escalator in use.
- The **“Average”** Dealership used escalated pricing on **25%** of their retail sales.

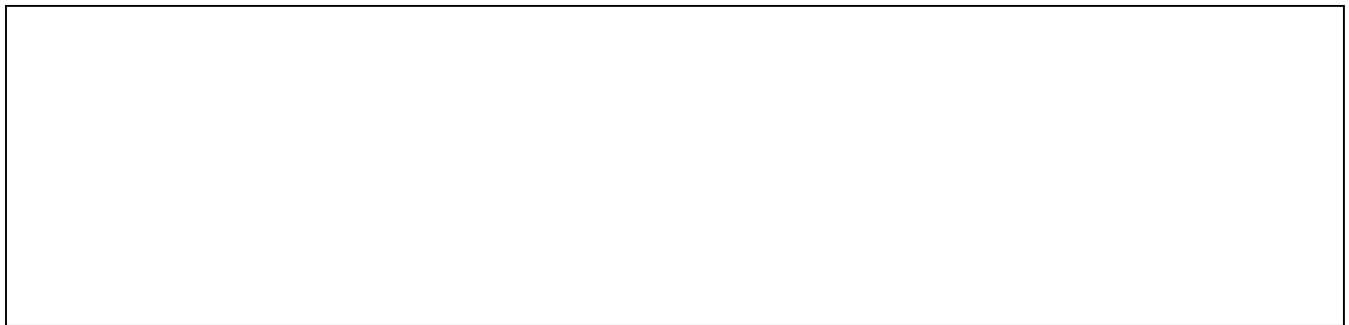


What “Alters” the Retail Pricing Strategy?

- A different price code is used to alter the price?
- A Labor Type that uses a different price code from the Service Setup?
- A Source Accounting Issue alters the sale account and pricing?
- Fixed Pricing groups “lock in” pricing, such as menu or grid pricing?
- Is someone consistently overriding the sale price?

Experience shows that it is a combination of the issues above.

- Review your Price Code Chart
 - CDK Report OSPC.
 - Reynolds Program 2565 or 2329 Specifications Report.
 - Dealerbuilt Parts Set up, then #2, Parts Pricing Codes.
 - Dealertrack Application Environment and Parts Pricing Strategies.
- Review Labor Types that Drive Parts Pricing
 - CDK Report (RLT) Report Labor Types from Service.
- Overrides Report
 - CDK Report “ROV” (Report Overrides).
 - Reynolds Report 2542 (Counterperson Override Report).
 - Dealerbuilt Reports / Parts Library / Parts Cost Over-rides.
 - Dealertrack Counterperson Analysis, then check on “Sales with Price Overrides” box to print.



Application & Conclusion for Customer Retail Pricing

- Review products on Sale and consider adjusting them slightly.
- Create a “Sub Sale” account if you are locked into certain prices to separate them from true retail sales.
- Close the gap or eliminate the “Overrides” as much as possible.
- Adjust the Escalators as necessary.

Remember: Knee Jerk adjustments without inspecting and investigating the pricing strategy usually means passing on increases in areas that have very little effect in increasing the gross profit, such as the escalator table.

The “Gas Station” Mentality.



Write in the box below, the Name of your Best Wholesale Customer.

When a Gas Station Owner has the cost of a gallon of gas go up 10 Cents per gallon, He or She is faced with a pricing decision.

- a) Worry that Customers won't pay anymore for gas and absorbs the increase?
- b) Split the cost with the Customer, raising the price only 5 cents?
- c) Raise the price to maintain their profit margin?
- d) Watch what other competitors are doing to raise it affectively?

The “Wholesale Sale” Syndrome.

- Parts Managers are usually willing to “fight” over any change in wholesale pricing.
 - a) It takes twice as much in resources and energy to generate wholesale profit as it does compared to retail profit.
 - b) Wholesale Sales should “always” be a compliment to the retail sale process, especially through the Service Department.
 - c) All Wholesale Customers are not created equally!

A Wholesale Exercise.

- Back on Page 2, Option 4, we called for a “Sales Ranking” Report for our Retail Sales. Now pull one for your Wholesale Customers as well.
- You DMS Vendors have some great “canned” reporting tools for pulling customer sales.
 - a) CDK PDA Monthly Reports and Ranking Sales Reports
 - b) Reynolds and Reynolds report 2212
 - c) Dealerbuilt Reports, Parts Library, Parts sold to Wholesale Customers.

Developing a “Customer Loyalty” Wholesale Program



Green Light Customers

- Pay in cash or pay on time.
- Buy consistently from you with decent volume purchasing.
- Send very little back for credit.

Yellow Light Customers

- Slow pay their bills.
- Are inconsistent in purchases, or you are a secondary source.
- Have a high return percentage.
- Don't buy in volume, but buy often.

Red Light Customers

- Slow pay their bills.
- Are inconsistent in purchases, or you are a secondary source.
- Have a very high return percentage.
- Complain a lot and want higher discounts because they claim they are a top customer.



The “25/10” or “30/5” Rule

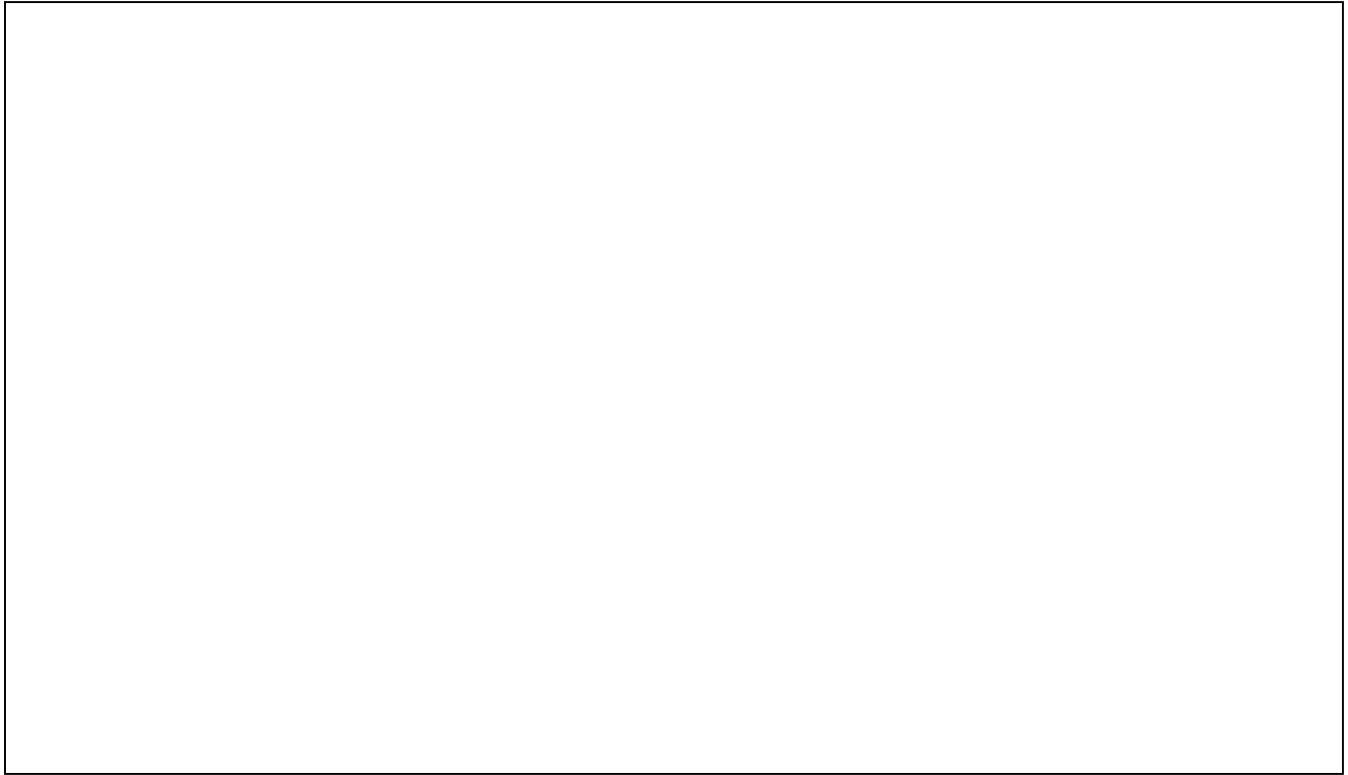
- Thinking of Operating Expenses and Holding Costs in the Parts Department.
 - a) If you are giving a 25% discount from retail and your Customer is returning more than 10% of their purchases, you are losing money.
 - b) If you are giving a 30% discount from retail and your Customer is returning more than 5% of their purchases, you are losing money.

Using the “benchmarks” above will give you the information you need to determine discounts for each Wholesale Customer based on their loyalty and purchasing habits.

All Wholesale Customers “Are Not” created equally!



Key Takeaways from today's Workshop



- Determine Your Current Retail Pricing Strategy.
- Report and Investigate on How Effectively your Retail Sales are working.
- Discuss and “test” implementing potential changes.
- Review retail pricing details consistently.
- Review Wholesale Customers and discount practices.
- Develop a “Customer Loyalty” strategy to break down wholesale customers based on purchasing habits.
- Review the Wholesale Ranking Reports quarterly (or monthly) to continually make adjustments based on changing habits.
- Enjoy taking control of your pricing strategy and more gross profits!